



HUDSON BAY MINING AND SMELTING CO., LIMITED

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P.O. BOX 28

TORONTO-DOMINION CENTRE

TORONTO, CANADA

M5K 1B8

May 14, 1983

Dear Shareholder:

I am pleased to invite you to attend an annual and special meeting of the shareholders of Hudson Bay Mining and Smelting Co., Limited ("HBMS") to be held on Wednesday, June 8, 1983, in Commerce Hall, Commerce Court West, Toronto, Ontario, at 11:00 a.m. Toronto time.

At the meeting you will be asked to approve a proposed reorganization which will combine the businesses of HBMS and of its 50%-owned affiliate Inspiration Resources Corporation ("Inspiration Resources"), formerly called Plateau Holdings Inc., in a larger public company. The other 50% of Inspiration Resources is owned by Minerals and Resources Corporation Limited ("Minorco"), which indirectly is the principal shareholder (44%) of HBMS.

The joint interests of HBMS and Minorco in Inspiration Resources, which mainly represent United States interests, will be pooled with the directly-owned interests of HBMS in Canada. This will be done by reorganizing Inspiration Resources into a United States public company. Inspiration Resources will become the holder of all the voting shares of HBMS, whose operations will continue to be primarily in Canada.

During the past five years, HBMS and Inspiration Resources have carried on a program of expansion and diversification within the natural resources industry, as well as modernization of existing businesses. This program involved substantial capital expenditures and investments in base metals, petroleum, agricultural chemicals, and coal. These expenditures and investments have resulted in the greater part of HBMS' total interests now being located in the United States and managed through a complex holding-company structure, and is subject to the limitations, particularly financing limitations, of a holding company. The proposed reorganization will simplify and rationalize the existing corporate and management structures.

The substantial growth, diversification and modernization program was funded to a major degree by external borrowing which, in conjunction with the economic recession, has resulted in a significant equity funding requirement. The Board of Directors of HBMS believes that the corporate structure resulting from the reorganization will be more appropriate in these circumstances because the reorganized entity should be more attractive to equity investors as well as to lenders. The Board of Directors anticipates that the greater investment appeal of the more simplified ownership structure and the creation of a larger United States public company will permit greater financing flexibility in the Canadian and United States capital markets.

Subject to market conditions, upon completion of the reorganization both HBMS and Inspiration Resources will seek additional equity capital in Canada and the United States for the purpose of reducing indebtedness. Minorco has agreed to invest \$US80 million in equity capital in 1983, \$US30 million of which represents reinvestment of an existing loan to Inspiration Resources. Accordingly, the reorganization will ensure additional equity support from HBMS' principal shareholder and will thereby reduce the capital requirements that would otherwise have to be met.

Under the terms of the reorganization, HBMS shareholders will have the option of exchanging their HBMS common shares for either Inspiration Resources common shares or newly-created special shares of HBMS. The HBMS special shares are exchangeable by the holders for Inspiration Resources common shares and will be automatically exchanged in 10 years, subject to extension. In this way, they will be able to participate directly in the United States company or to participate indirectly, for at least 10 years, through holding HBMS special shares. Minorco will provide, directly or indirectly, premiums on the initial exchanges to all HBMS public shareholders in

the form of additional shares. A higher premium on the initial exchange for Inspiration Resources common shares is designed to encourage the development of a broad market in such shares.

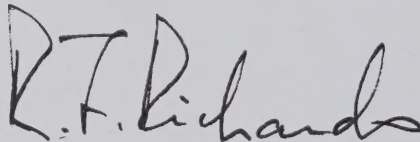
The terms of the proposed reorganization were negotiated with Minorco by an independent committee of the HBMS Board of Directors composed of four outside directors who were not affiliated with either Minorco or Inspiration Resources. The independent committee concluded that the reorganization is fair to the public shareholders of HBMS. McLeod Young Weir Limited, a Canadian investment dealer, and The First Boston Corporation, a United States investment banking firm, were engaged by HBMS to consider the fairness of the proposed reorganization to the HBMS public shareholders, other than Minorco. Each of these advisers is of the opinion that the terms of the reorganization are fair from a financial point of view to such HBMS public shareholders; the full texts of these opinions are included in the attached proxy statement and information circular. HBMS' Board of Directors believes that the proposed reorganization is fair to the public shareholders of HBMS and is in their best interests, and recommends that shareholders vote in favour of the reorganization at the annual and special meeting.

In order for the reorganization to become effective, it must be approved at the meeting by at least two-thirds of the votes cast by the public shareholders present in person or represented by proxy at the meeting. In addition, the reorganization must receive court approval.

The proxy statement more fully describes the reorganization and the businesses of HBMS and Inspiration Resources, and includes pro forma financial information regarding the reorganization.

It is important that your shares be represented at the meeting. If you will be unable to attend in person, please complete, date, sign and return the enclosed form of proxy at your earliest convenience.

Yours very truly,

A handwritten signature in dark ink, appearing to read "R.F. Richards". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

REUBEN F. RICHARDS
Chairman of the Board,
President and Chief Executive Officer

HUDSON BAY MINING AND SMELTING CO., LIMITED

Incorporated under the laws of Canada on December 27, 1927

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

To The Shareholders:

Notice is hereby given that the Annual and a Special Meeting of Shareholders (the "Meeting") of HUDSON BAY MINING AND SMELTING CO., LIMITED ("HBMS") will be held in Commerce Hall, Commerce Court West, Toronto, Ontario, on Wednesday, June 8, 1983, at the hour of 11:00 a.m., Toronto time, for the following purposes:

1. To consider and, if thought fit, to pass, with or without amendment, a Special Resolution approving an Arrangement Agreement providing for an Arrangement by HBMS pursuant to which, among other things, (a) each public shareholder of HBMS will, at his election, either convert all of his HBMS Common Shares into HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share converted or exchange all of his HBMS Common Shares for Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged, (b) Minorco Canada Limited will exchange all of its HBMS Common Shares for Inspiration Resources Common Shares or, in certain events, exchange and convert all of its HBMS Common Shares for a combination of Inspiration Resources Common Shares and HBMS Special Shares, and (c) the new class of HBMS Special Shares will be created;
2. To receive the Financial Statements for the year ended December 31, 1982, and the Auditors' Report on the Financial Statements;
3. To elect Directors to serve for the ensuing year;
4. To appoint Auditors for the ensuing year and to authorize the Directors to fix their remuneration; and
5. To transact such other business as may properly be brought before the Meeting, or any adjournment thereof.

Copies of the Special Resolution and the Arrangement Agreement are attached as Appendices 2 and 3, respectively, to the Proxy Statement and Information Circular attached hereto, and a copy of the Arrangement is attached as Schedule A to the Arrangement Agreement.

Each person who is a shareholder of record at the close of business on May 13, 1983 is entitled to vote at the Meeting, unless after that date he transfers his shares and the transferee demands by the close of business on May 30, 1983, in accordance with the provisions of the Canada Business Corporations Act, that the transferee's name be included in the list of shareholders entitled to vote.

By order of the Board of Directors.

C. K. TAYLOR, Q.C.
Senior Vice-President, Secretary and
General Counsel

Toronto, Ontario
May 14, 1983

Note: If you are unable to attend the Meeting and would like your shares represented, please complete, date and sign the enclosed form of proxy and mail it in the enclosed envelope.

IN THE SUPREME COURT OF ONTARIO

IN THE MATTER OF the Canada Business Corporations Act, S.C. 1974-75-76, c. 33, as amended;
AND IN THE MATTER OF a proposed Arrangement concerning Hudson Bay Mining and Smelting Co.,
Limited and its shareholders

NOTICE OF MOTION

TAKE NOTICE that the Court will be moved by Counsel on behalf of Hudson Bay Mining and Smelting Co., Limited for approval of an Arrangement under Section 185.1 of the Canada Business Corporations Act, which Arrangement is described in greater detail in the Proxy Statement and Information Circular mailed with this Notice, before the Presiding Judge at Osgoode Hall in the City of Toronto in the Province of Ontario on the 9th day of June, 1983 at the hour of 10:30 in the forenoon (Toronto time), or so soon thereafter as Counsel may be heard. The Court will be asked to make a finding that the terms and conditions of the Arrangement, as approved, with or without amendment, by the shareholders of Hudson Bay Mining and Smelting Co., Limited, are fair and reasonable to the shareholders, other than Minorco Canada Limited, and to approve the Arrangement. Any shareholder of Hudson Bay Mining and Smelting Co., Limited desiring to support or oppose the making of an Order approving the Arrangement may appear at the time of hearing in person or by counsel for that purpose and may present evidence or argument with respect to the Arrangement. If you do not attend, either in person or by counsel, at that time, the Court may approve the Arrangement, as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice to you.

AND TAKE NOTICE that pursuant to the Rules of Court, if you wish to oppose this motion, you shall file an Appearance on or before the return date of the motion, being June 9, 1983, in default of which you are not entitled to file any material on the motion.

A copy of the Affidavits and other documents in the proceedings will be furnished to any person requiring the same by the undermentioned solicitors for the Applicant.

DATED at Toronto, this 14th day of May, 1983.

OSLER, HOSKIN & HARCOURT
Solicitors for the Applicant
Hudson Bay Mining and Smelting Co., Limited
P.O. Box 50
First Canadian Place
Toronto, Ontario M5X 1B8
Attention: G. D. Lane, Q.C.
T. R. Lederer

HUDSON BAY MINING AND SMELTING CO., LIMITED

**PROXY STATEMENT AND INFORMATION CIRCULAR
FOR THE ANNUAL AND
SPECIAL MEETING OF SHAREHOLDERS**

**to be held in
Commerce Hall, Commerce Court West
Toronto, Ontario**

on

**Wednesday
June 8, 1983, at 11:00 A.M. (Toronto time)**

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HUDSON BAY MINING AND SMELTING CO., LIMITED

GENERAL INFORMATION

THE MANAGEMENT OF HUDSON BAY MINING AND SMELTING CO., LIMITED ("HBMS") IS SOLICITING PROXIES FOR THE ANNUAL AND A SPECIAL MEETING OF SHAREHOLDERS (THE "MEETING") MENTIONED IN THE ATTACHED NOTICE, AND THIS PROXY STATEMENT AND INFORMATION CIRCULAR (THE "CIRCULAR") IS FURNISHED IN CONNECTION WITH SUCH SOLICITATION OF PROXIES. If the enclosed form of proxy is duly executed and returned, all HBMS Common Shares in respect of which the persons named therein are appointed to act will be voted or withheld from voting, in accordance with the shareholder's specification, on any vote that may be called for at the Meeting. Should no such specification be made, then the shares will be voted as stated in the enclosed form of proxy. This Circular and the enclosed form of proxy are to be sent to HBMS Shareholders on May 14, 1983.

The meeting is being called so that the shareholders may consider and, if thought fit, pass, with or without amendment, a Special Resolution approving an Arrangement Agreement providing for an arrangement by HBMS and for the other purposes mentioned in the attached Notice.

The persons named in the enclosed form of proxy are Directors of HBMS. A shareholder has the right to appoint a person (who need not be a shareholder) to represent him at the Meeting other than those named in the enclosed form of proxy. Such right may be exercised by inserting such other person's name in the blank space on the face of the enclosed form of proxy or by completing another appropriate form of proxy. It is the intention of the persons named in the enclosed form of proxy to vote for the Special Resolution approving the Arrangement Agreement and for management's recommendations with respect to the other matters to come before the Meeting, unless instructed otherwise by the shareholder.

To be voted at the Meeting, a proxy must be received by the Secretary of HBMS by the close of business on the last business day preceding the date of the Meeting or any adjournment thereof or by the Chairman of the Meeting immediately prior to the commencement of the Meeting or any adjournment thereof.

Only persons who are shareholders of record of HBMS at the close of business on May 13, 1983 or who subsequently became shareholders and, in accordance with the provisions of the Canada Business Corporations Act, made a request to vote to the Secretary of HBMS by the close of business on May 30, 1983 will be entitled to vote. Each outstanding HBMS Common Share entitles the holder thereof to one vote. There were 10,231,044 HBMS Common Shares outstanding at the close of business on May 2, 1983.

Pursuant to subsection 142(4) of the Canada Business Corporations Act, any shareholder executing a proxy may revoke the proxy (in addition to any other manner permitted by law) by depositing an instrument in writing executed by the shareholder or by his attorney, authorized in writing, either at the registered office of HBMS, 28th Floor, Toronto-Dominion Bank Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1B8, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

The cost of sending notice of the Meeting and soliciting proxies for the Meeting will be paid by HBMS. The solicitation of proxies will be by mail, supplemented by telephone or other personal contact by Directors or regular employees of HBMS. Georgeson & Co. Inc. will be retained by HBMS to assist in communications with HBMS Shareholders and the financial community in Canada, the United States and elsewhere. For these services, which might be legally construed as proxy solicitation, Georgeson & Co. Inc. will be paid a fee not to exceed \$US45,000.

HBMS will pay persons holding HBMS Common Shares in their names or in those of their nominees for their reasonable expenses in sending solicitation material to their principals.

The enclosed form of proxy will confer discretionary authority upon the persons named therein with respect to any amendments to the matters set forth in the attached notice and with respect to any other matters that may properly come before the Meeting.

Management is not aware of any matters to be presented for action at the Meeting other than the matters described in the attached notice and is not aware that any amendments to the matters described in the attached notice are to be proposed at the Meeting. If other matters properly come before the Meeting, it is the intention of the persons named in the enclosed form of proxy to vote the proxy in accordance with their judgment on such matters.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY CANADIAN SECURITIES COMMISSION NOR HAVE ANY SUCH COMMISSIONS PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT.

The high, low and average noon spot exchange rates for the Canadian dollar for the years 1978 through 1982 reported by the Federal Reserve Bank of New York, and for the January through April 1983 period as reported by the Bank of Canada, were as follows:

	January through April 1983	1982	1981	1980	1979	1978
High (\$US)	\$0.8208	\$0.8430	\$0.8499	\$0.8754	\$0.8771	\$0.9159
Low (\$US)	0.8072	0.7691	0.8048	0.8258	0.8326	0.8404
Average (\$US)	0.8121*	0.8088*	0.8338*	0.8546*	0.8543*	0.8743*

*Represents the average noon spot exchange rate on last day of each month

The noon spot exchange rates for Canadian dollars per \$US1.00 at December 31, 1982, December 31, 1981, December 31, 1980, December 31, 1979 and December 31, 1978 were \$Cdn1.2294, \$Cdn1.1859, \$Cdn1.1947, \$Cdn1.1681 and \$Cdn1.1860, respectively, as reported by the Bank of Canada for such dates.

The May 2, 1983 noon spot exchange rate, as reported by the Bank of Canada, was \$US1.00 = \$Cdn1.2236.

On May 2, 1983, the noon buying rate in New York, New York, as reported by the Federal Reserve Bank of New York, was \$US0.8171 = \$Cdn1.00.

GLOSSARY OF TERMS

Arrangement	The conversion by each of the HBMS Public Shareholders of all of his HBMS Common Shares into HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share converted or the exchange by each of the HBMS Public Shareholders of all of his HBMS Common Shares for Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged; the exchange by Mincan of all of its HBMS Common Shares for Inspiration Resources Common Shares, or, in certain events, the exchange and conversion of all of its HBMS Common Shares for a combination of Inspiration Resources Common Shares and HBMS Special Shares; and the creation of the new class of HBMS Special Shares, all pursuant to the Arrangement Agreement.
Arrangement Agreement	Arrangement Agreement dated as of May 14, 1983 among HBMS, Inspiration Resources and Minorco and attached hereto as Appendix 3.
Automatic Exchange Date	The date for the automatic exchange of HBMS Special Shares into Inspiration Resources Common Shares, which date shall be the earlier of (i) the last date on which a holder of Inspiration Resources Common Shares is entitled to fully participate in the liquidation, dissolution or winding up of Inspiration Resources or any other distribution of the assets of Inspiration Resources among its shareholders for the purpose of winding up its affairs, or (ii) the date which is ten years after the Effective Date, which is expected to be July 6, 1993, unless such date shall be extended at any time or from time to time to a specified later date by the Board of Directors of HBMS, in which case such later date.
CBCA	The Canada Business Corporations Act, S.C. 1974-75-76, c. 33, as amended.
Circular	This Proxy Statement and Information Circular of HBMS.
Code	The United States Internal Revenue Code of 1954, as amended.
Court	The Supreme Court of Ontario.
Depository	In Canada, Montreal Trust Company through its offices in Montreal, Toronto, Winnipeg, Calgary and Vancouver and in the United States or elsewhere, Morgan Guaranty Trust Company of New York through its office in New York, New York.
Effective Date	The date shown in the certificate of amendment to be issued to HBMS in respect of the Arrangement, which date is anticipated to be July 6, 1983.
HBMS	Hudson Bay Mining and Smelting Co., Limited, a corporation organized and existing under the laws of Canada.
HBMS Canadian Public Shareholders	HBMS Public Shareholders whose addresses of record are Canadian.
HBMS Common Shares	The common shares without nominal or par value of HBMS.
HBMS Non-Canadian Public Shareholders	HBMS Public Shareholders whose addresses of record are not Canadian.
HBMS Public Shareholders	The holders of HBMS Common Shares other than Mincan.
HBMS Shareholders	The holders of HBMS Common Shares.
HBMS Special Shares	The Special, Exchangeable, Non-Voting Shares of HBMS, the terms and conditions of which are set forth in Exhibit I to Schedule A to the Arrangement Agreement.

Independent Committee	The independent committee of the Board of Directors of HBMS which is composed of Messrs. Crawford, Jones, Lambert and Sweatman, each of whom is not an employee, officer or a director of Inspiration Resources, Minorco or Mincan or of any affiliate of any of them other than HBMS.
Inspiration Coal	Inspiration Coal Inc., a corporation organized and existing under the laws of the State of Delaware.
Inspiration Copper	Inspiration Consolidated Copper Company, a corporation organized and existing under the laws of the State of Maine.
Inspiration Resources	Inspiration Resources Corporation, formerly Plateau Holdings Inc., a corporation organized and existing under the laws of the State of Maryland.
Inspiration Resources Agency Agreement	The Inspiration Resources Exchange Agency and Trust Agreement among HBMS, Inspiration Resources and the Trustee and attached as Schedule C to the Arrangement Agreement which is attached hereto as Appendix 3.
Inspiration Resources Class A Shares	The shares without par value of Inspiration Resources to be held by Minorco and having voting rights of 1/10 of one vote per share.
Inspiration Resources Common Shares	The shares without par value of Inspiration Resources having voting rights of one vote per share.
Inspiration Resources Group	Inspiration Resources, Inspiration-Copper, Inspiration Mines Inc., Inspiration Coal, Terra and Trend and their wholly-owned subsidiaries.
Inspiration Resources Trust Shares	The shares of Inspiration Resources having a par value of \$US0.0001 per share and having voting rights of one vote per share.
Interim Order	The interim order of the Court dated April 29, 1983 and attached as Appendix 4 hereto.
Meeting	The Annual and Special Meeting of the HBMS Shareholders convened to consider, among other things, the Arrangement Agreement.
Mincan	Minorco Canada Limited, a corporation organized and existing under the laws of Ontario, all of the voting securities of which are indirectly held by Minorco.
Minorco	Minerals and Resources Corporation Limited, a corporation organized and existing under the laws of Bermuda.
Order	The final order, when granted, of the Court approving the Arrangement.
Reorganization	The Arrangement and the transactions relating thereto involving HBMS, Minorco and certain of their affiliates.
Special Resolution	The Special Resolution to be passed at the Meeting, with or without amendment, the text of which is attached as Appendix 2 hereto.
Tax Act	The Income Tax Act, S.C. 1970-71-72, c. 63, as amended.
Terra	Terra Chemicals International, Inc., a corporation organized and existing under the laws of the State of Delaware.
Trend	Trend International Limited, a corporation organized and existing under the laws of Bermuda.
Trust	The trust to be created pursuant to the Inspiration Resources Agency Agreement for the purpose of holding the Inspiration Resources Trust Shares for the benefit of, and voting the same in accordance with the wishes of, the holders of HBMS Special Shares.
Trustee	Montreal Trust Company, the trustee under the Inspiration Resources Agency Agreement.

HUDSON BAY MINING AND SMELTING CO., LIMITED

SUMMARY OF THE REORGANIZATION

The following is a summary of certain information contained in this Circular relating to the Reorganization. The summary is provided for convenience only and the information contained in this summary is qualified by the more detailed information contained in the body of this Circular, including the appendices hereto. Reference is made to the Glossary of Terms for the definitions of certain terms used in this Circular.

Introduction

The proposed Reorganization involves HBMS and Inspiration Resources and consists of a series of transactions in preparation for the Arrangement as well as the Arrangement itself. As a result of the Reorganization, Inspiration Resources will become the publicly traded parent company for the Inspiration Resources Group and HBMS. See "AFTER REORGANIZATION" chart on page 14. The corporate and management structures will be simplified and rationalized so as to permit greater financing flexibility in the Canadian and United States capital markets. Under the Arrangement, HBMS Shareholders will become holders of Inspiration Resources Common Shares or, at their option, HBMS Special Shares which are exchangeable for Inspiration Resources Common Shares. Holders of HBMS Special Shares will continue to have the tax advantages applicable to holding shares of a Canadian company.

The Parties

HBMS, a Canadian corporation originally incorporated in 1927 and, since July 1978, governed by the CBCA, is a diversified natural resource company engaged, directly and through the Inspiration Resources Group, in four business segments (base metals, petroleum, agricultural chemicals and coal), with principal operations in Canada, the United States and Indonesia. See "INFORMATION CONCERNING HBMS—The Business of HBMS and the Inspiration Resources Group".

Inspiration Resources, formerly Plateau Holdings Inc., a Maryland corporation incorporated on June 2, 1978, is the holding company of the Inspiration Resources Group.

Minorco, a corporation governed by the laws of Bermuda, is an investment company which holds investments in companies operating in six continents. These companies are principally engaged in investment banking and the marketing of commodities, the mining and marketing of precious and base metals and of diamonds, industrial operations and the coal and petroleum industries.

Inspiration Resources is currently owned 50% by HBMS and 50% by Minorco. Minorco indirectly owns approximately 44% of HBMS. See "BEFORE REORGANIZATION" chart on page 14.

The Arrangement

Under the Arrangement, each HBMS Public Shareholder, other than any shareholder who exercises his right of dissent, will become, at the shareholder's option, a holder of either:

- (i) HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share held; or
- (ii) Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share held.

In the event that an HBMS Public Shareholder fails to make an election, he will be deemed to have elected to receive 1.10 HBMS Special Shares for each HBMS Common Share held, in the case of a HBMS Canadian Public Shareholder, and 1.15 Inspiration Resources Common Shares for each HBMS Common Share held in the case of a HBMS Non-Canadian Public Shareholder.

Under the Arrangement, Mincan will exchange all of its HBMS Common Shares for Inspiration Resources Common Shares or, in certain events, will exchange and convert all of its HBMS Common Shares for a combination of Inspiration Resources Common Shares and HBMS Special Shares. Inspiration Resources will become the sole holder of all of the HBMS Common Shares. See "THE REORGANIZATION—Description of the Reorganization". The premiums in the form of additional shares to

be received by HBMS Public Shareholders will be borne by Mincan and Minorco by a corresponding reduction in the number of Inspiration Resources Common Shares to be held by Mincan and Minorco or, in certain events, HBMS Special Shares to be held by Mincan. The larger premium to be received by HBMS Public Shareholders upon the election of Inspiration Resources Common Shares is intended to encourage a more significant public participation in those shares. See also "THE REORGANIZATION—Equity Interests Before and After the Reorganization" for a description of the reduction of Mincan's and Minorco's interests in Inspiration Resources.

Meeting and Votes Required

The Arrangement will be considered at the Meeting pursuant to the directions of the Court set forth in the Interim Order.

At the Meeting, HBMS Shareholders will be asked to consider and, if thought fit, to pass, with or without amendment, the Special Resolution approving the Arrangement Agreement. The Special Resolution approving the Arrangement Agreement must be passed by the affirmative vote of at least 66 $\frac{2}{3}$ % of the votes cast by the HBMS Shareholders present in person or represented by proxy at the Meeting, and, in addition, by at least 66 $\frac{2}{3}$ % of the votes cast by the HBMS Public Shareholders present in person or represented by proxy at the Meeting. At May 2, 1983, there were 10,231,044 HBMS Common Shares outstanding of which 4,487,540 (43.86%) were held by Mincan and 5,743,504 (56.14%) were held by HBMS Public Shareholders. Mincan has advised HBMS that it intends to vote for the Special Resolution. See "THE REORGANIZATION—Description of the Reorganization".

Independent Committee

The Independent Committee composed of Messrs. Crawford, Jones, Lambert and Sweatman (being directors of HBMS who are neither employees, directors nor officers of Inspiration Resources or Minorco) has concluded that the Reorganization, which comprises the Arrangement and the related transactions involving the restructuring of the interests of HBMS and Minorco, is fair to the HBMS Public Shareholders and has reported such conclusion to the Board of Directors of HBMS. See "THE REORGANIZATION—Description of the Reorganization".

Directors' Recommendation

THE BOARD OF DIRECTORS OF HBMS HAS CONCLUDED THAT THE REORGANIZATION IS FAIR TO THE HBMS PUBLIC SHAREHOLDERS AND RECOMMENDS THAT THE HBMS PUBLIC SHAREHOLDERS VOTE FOR THE SPECIAL RESOLUTION APPROVING THE ARRANGEMENT AGREEMENT. See "THE REORGANIZATION—Description of the Reorganization".

Fairness Opinions

McLeod Young Weir Limited and The First Boston Corporation were engaged by HBMS to assist the Independent Committee and the Board of Directors of HBMS in evaluating the fairness of the Arrangement to the HBMS Public Shareholders. See "THE REORGANIZATION—Description of the Reorganization". McLeod Young Weir Limited and The First Boston Corporation have each given an opinion that the terms of the Arrangement are fair from a financial point of view to the HBMS Public Shareholders. A copy of each of the opinions of McLeod Young Weir Limited and The First Boston Corporation is attached as Appendix 1 hereto.

Equity Interests Before and After the Reorganization

Minorco is currently the holder of 50% of the outstanding shares of Inspiration Resources and, through Mincan, of 43.86% of the issued and outstanding HBMS Common Shares. After consulting the financial advisors of HBMS as to what would be fair to the HBMS Public Shareholders and after reviewing the relative values of the Inspiration Resources Group and HBMS, the Independent Committee agreed with Minorco that Minorco would be entitled to a 64% interest in the combined assets of HBMS and the Inspiration Resources Group, while the HBMS Public Shareholders would be entitled to the remaining 36%. Based on this determination and due to the premiums that the Independent Committee agreed with Minorco were to be given by Minorco and Mincan to HBMS Public Shareholders on the exchange or conversion of their HBMS

Common Shares, Minorco's interest in these combined assets will decrease as a result of the Reorganization to between approximately 58.6% and 60.4%, depending on the number of HBMS Public Shareholders who elect to receive Inspiration Resources Common Shares in the Arrangement. Minorco's initial aggregate voting rights in Inspiration Resources will be less than 50% of the total voting rights of the then outstanding Inspiration Resources shares. See "THE REORGANIZATION—Equity Interests Before and After the Reorganization". HBMS Public Shareholders would be entitled to 36% of the equity in the reorganized Inspiration Resources prior to provision by Minorco and Mincan of the share exchange premiums referred to above. After allowance for the premiums, the equity ownership of the HBMS Public Shareholders in Inspiration Resources would be between approximately 39.6% and 41.4%.

Court Approval

Following the approval of the HBMS Shareholders and the HBMS Public Shareholders at the Meeting, HBMS must apply to the Court for the Order approving the Arrangement. The application for the Order will be heard at 10:30 a.m. (Toronto time) on June 9, 1983 in the Supreme Court of Ontario, at Osgoode Hall, 130 Queen Street West, Toronto, Ontario. Any HBMS Shareholder has the right to appear at such hearing and present evidence with respect to the fairness of the Arrangement. See "THE REORGANIZATION—Description of the Reorganization".

Conditions to the Arrangement

In addition to the approval of the HBMS Shareholders, the HBMS Public Shareholders and the Court, implementation of the Arrangement is also subject to certain other conditions, including a condition, which may be waived, that rights of dissent from the Arrangement shall not be exercised in respect of more than 511,552 HBMS Common Shares (5% of the outstanding HBMS Common Shares on the Effective Date). The Arrangement Agreement may also be terminated by agreement of the parties thereto at any time prior to implementation. See "THE REORGANIZATION—Description of the Reorganization".

Dissenting Shareholders' Appraisal Rights

Pursuant to the Interim Order, each HBMS Public Shareholder has been granted the right to dissent in respect of the Arrangement if HBMS shall have received from such dissenting shareholder written objection thereto no later than the termination of the Meeting, and such dissenting shareholder shall have otherwise complied with Section 184 of the CBCA. If the Arrangement becomes effective, each dissenting HBMS Public Shareholder will be entitled to be paid the fair value of his HBMS Common Shares in accordance with Section 184 of the CBCA. See "THE REORGANIZATION—Dissenting Shareholders' Appraisal Rights".

Description of HBMS Special Shares and Inspiration Resources Common Shares

The HBMS Special Shares will be exchangeable for Inspiration Resources Common Shares on a 1 for 1 basis, subject to adjustment in certain events, commencing on the Effective Date and continuing until the last business day prior to the Automatic Exchange Date. On the Automatic Exchange Date, the HBMS Special Shares will be automatically exchanged for Inspiration Resources Common Shares at the then applicable share exchange rate.

Each holder of HBMS Special Shares will be entitled to instruct the Trustee as to the voting of or to personally vote as proxy for the Trustee one vote in Inspiration Resources for each whole Inspiration Resources Common Share for which the HBMS Special Shares held by such holder are then exchangeable.

Inspiration Resources will agree to cause HBMS to pay dividends at the same time as, and of a value equivalent to, any dividends declared and paid on the Inspiration Resources Common Shares. Inspiration Resources will also agree that, upon a voluntary liquidation of HBMS supported by Inspiration Resources, HBMS will satisfy the liquidation value to which the holders of HBMS Special Shares are entitled.

HBMS may redeem the HBMS Special Shares in the event Inspiration Resources sells to a non-affiliate of Inspiration Resources all of the HBMS Common Shares held by it or causes or permits HBMS to sell to a non-affiliate of Inspiration Resources all or substantially all of its assets. HBMS may redeem the HBMS Special Shares commencing on the business day immediately preceding July 6, 1993 until the date on which the HBMS Special Shares will be automatically exchanged on payment of a price equal to the aggregate market value of the Inspiration Resources Common Shares into which the HBMS Special Shares are exchangeable. The redemption amount may be paid in cash or Inspiration Resources Common Shares. See

“THE REORGANIZATION—Description of HBMS Special Shares and Inspiration Resources Common Shares”. See also the Inspiration Resources Agency Agreement attached as Schedule C to the Arrangement Agreement which is attached hereto as Appendix 3.

The Inspiration Resources Common Shares will be entitled to one vote per share, will be entitled to such dividends as may be declared from time to time by the Board of Directors of Inspiration Resources and will not be redeemable. See “INFORMATION CONCERNING INSPIRATION RESOURCES—Share Capital” for a detailed description of the Inspiration Resources Common Shares.

See “THE REORGANIZATION—Comparison of Shareholders’ Rights Under Maryland and Canadian Law” as to several significant differences between the rights of shareholders under the General Corporation Law of the State of Maryland, the jurisdiction of incorporation of Inspiration Resources, and the rights of shareholders under the CBCA.

Registration and Trading of Shares

Applications have been made to list the Inspiration Resources Common Shares on the New York Stock Exchange and the HBMS Special Shares on The Toronto Stock Exchange. Listing is subject to formal approval by such exchanges.

Subject to regulatory approval, on the Effective Date, the HBMS Special Shares and the Inspiration Resources Common Shares will be qualified to be traded in Canada in accordance with applicable Canadian securities legislation. It is a condition to the implementation of the Arrangement that the Inspiration Resources Common Shares to be issued in exchange for HBMS Special Shares be registered under the United States Securities Act of 1933.

Qualification for Investment

In the opinion of counsel for HBMS, the HBMS Special Shares will be eligible investments (without resort to so-called “basket provisions”) under the Canadian and British Insurance Companies Act and certain other statutes as set forth under “QUALIFICATION FOR INVESTMENT”.

Canadian Federal Income Tax Consequences to HBMS Public Shareholders

It is expected that the conversion of HBMS Common Shares into HBMS Special Shares will not result in any tax under the Tax Act being payable by an HBMS Public Shareholder.

An HBMS Public Shareholder who is resident in Canada and who has elected to receive Inspiration Resources Common Shares (other than a private corporation, as defined in the Tax Act, which elects to receive and does receive Inspiration Resources Common Shares from HBMS), will be considered to have disposed of his HBMS Common Shares for proceeds of disposition equal to the fair market value of the Inspiration Resources Common Shares at the time of the Arrangement.

An HBMS Public Shareholder which is a private corporation and which elects to receive and does receive Inspiration Resources Common Shares from HBMS will be deemed to have received a taxable dividend equal to the amount by which the fair market value of the Inspiration Resources Common Shares exceeds the paid-up capital of the HBMS Common Shares immediately before the Arrangement.

An HBMS Public Shareholder who is not a resident in Canada will not be subject to tax under the Tax Act in respect of the exchange of his HBMS Common Shares for Inspiration Resources Common Shares unless the HBMS Common Shares are taxable Canadian property within the meaning of the Tax Act and the non-resident is not entitled to relief under an applicable tax treaty.

An HBMS Public Shareholder resident in Canada (other than a private corporation) who dissents from the Arrangement will be deemed to have disposed of his HBMS Common Shares for proceeds of disposition equal to the amount of the payment received by him from HBMS. A dissenting shareholder which is a private corporation or which is not a resident in Canada will be deemed to have received a taxable dividend equal to the amount, if any, by which the amount of the payment received by it exceeds the paid-up capital of its HBMS Common Shares. See “THE REORGANIZATION—Income Tax Consequences of the Arrangement to HBMS Public Shareholders—Canadian Federal Income Tax Considerations”.

United States Federal Income Tax Consequences to HBMS Public Shareholders

While the matter is not free from doubt, a United States shareholder who elects to exchange HBMS Common Shares for Inspiration Resources Common Shares probably will recognize gain or loss on such exchange. Generally, a United States shareholder who elects to convert HBMS Common Shares into HBMS Special Shares will not recognize gain or loss on such conversion, but may be taxable on some amount (which in HBMS' view would be nominal) as a dividend. In general, a United States shareholder who subsequently elects to exchange HBMS Special Shares for Inspiration Resources Common Shares will recognize capital gain or loss on such exchange. See "THE REORGANIZATION—Income Tax Consequences of the Arrangement to HBMS Public Shareholders—United States Federal Income Tax Considerations".

Transaction Related to the Reorganization

Inspiration Resources intends to raise additional capital through the sale of shares in 1983. It is intended that, subject to market conditions, part of this additional capital will be raised through the issue of additional HBMS Special Shares in Canada shortly after the Reorganization. Minorco has agreed with Inspiration Resources and HBMS that, if the Reorganization takes place, Minorco will purchase from Inspiration Resources \$US80 million of the share capital of Inspiration Resources in 1983. Of this amount, \$US30 million will represent reinvestment in share capital of Minorco's presently outstanding loan of \$US30 million to Inspiration Resources, which will be repaid by Inspiration Resources prior to the Effective Date. See "THE REORGANIZATION—Transactions Related to the Reorganization".

Trading Pattern of HBMS Common Shares

The HBMS Common Shares are listed on The Toronto Stock Exchange, the Montreal Exchange and the New York Stock Exchange. The following table sets forth the price and volume information for the HBMS Common Shares on The Toronto Stock Exchange and the New York Stock Exchange for the periods indicated:

	HBMS					
	The Toronto Stock Exchange†			New York Stock Exchange		
	High	Low (\$Cdn)	Volume	High	Low (\$US)	Volume
1981						
First Quarter	\$37.38	\$29.38	314,219	\$31.00	\$24.63	297,000
Second Quarter	35.00	28.00	360,205	29.88	23.50	340,200
Third Quarter	31.00	22.88	435,546	25.88	19.13	197,100
Fourth Quarter	25.38	21.13	191,934	21.50	17.75	180,600
1982						
First Quarter	\$25.00	\$17.50	245,313	\$20.88	\$13.75	359,600
Second Quarter	18.75	13.50	348,940	15.25	10.63	124,300
Third Quarter	16.75	12.75	519,525	13.38	10.25	81,400
Fourth Quarter	18.25	13.50	369,746	14.88	10.88	146,400
1983						
First Quarter*	\$23.38	\$16.13	577,625	\$19.25	\$13.50	213,600
April	19.88	17.25	211,504	16.38	14.13	23,900
May	22.25	19.63	219,103	18.50	15.88	20,200
(through May 11, 1983)**						

†Includes odd-lot trades

* On March 4, 1983, HBMS announced the Reorganization.

**On May 11, 1983, the closing price of HBMS Common Shares on The Toronto Stock Exchange was \$Cdn 22, and on the New York Stock Exchange was \$US18.

Summary of 1982 Financial Information

The following table sets forth summarized financial information at December 31, 1982 and for the year then ended, of HBMS on a consolidated basis and on a pro forma consolidated basis after giving effect to the Reorganization and of Inspiration Resources Group on a combined basis and on a pro forma consolidated basis after giving effect to the Reorganization. The table of summarized financial information should be read in conjunction with the Pro Forma Financial Statements and related notes and assumptions thereto included elsewhere in this Circular.

	HBMS ⁽¹⁾		Inspiration Resources	
	Consolidated	Pro forma Consolidated	Group Combined	Pro forma Consolidated
(\$US in thousands, except share amounts)				
Revenue	\$205,872	\$205,872	\$576,367	\$779,742
Loss before extraordinary items	(50,257)	(30,306)	(43,577)	(72,342)
Net earnings (loss)	(5,278)	14,673	(43,577)	(27,363)
Capital expenditures	35,074	35,074	45,498	80,572
Working capital	25,721	28,549	37,734	63,455
Total assets	435,691	328,115	788,099	1,086,551
Total debt	83,968	83,968	375,514	459,482 ⁽²⁾
Shareholders' equity	251,504	143,928	279,996	397,039 ⁽²⁾
Earnings (loss) per common share				
before extraordinary items	\$ (4.91)	N/A	N/A	\$ (4.53) ⁽³⁾
after extraordinary items	(0.52)	N/A	N/A	(1.72) ⁽³⁾
Book value per common share	24.58	N/A	N/A	24.89 ⁽³⁾
Common shares outstanding	10,231,044	N/A	N/A	15,954,178 ⁽³⁾

N/A—Share amounts not applicable to HBMS pro forma Consolidated and Inspiration Resources Group Combined financial information.

(1) Consolidated financial information for HBMS has been translated to United States dollars and presented in accordance with United States generally accepted accounting principles.

(2) Pro forma adjustments in this Summary do not include the \$US80 million of capital committed by Minorco which is included in the Historical and Pro Forma Capitalization Table and referred to in "THE REORGANIZATION—Transactions Related to the Reorganization—Future Financings".

(3) Data reflects Inspiration Resources Common Shares and Inspiration Resources Class A Shares, assuming full exchange of HBMS Special Shares for Inspiration Resources Common Shares.

THE REORGANIZATION

The Reorganization consists of the Arrangement and certain related transactions, which are referred to under “THE REORGANIZATION—Description of the Reorganization—Restructuring of HBMS and Minorco Interests”, the completion of which are conditions to the implementation of the Arrangement. A copy of the Arrangement Agreement which provides for the taking of all steps necessary to give effect to the Arrangement is attached to this Circular as Appendix 3. The Arrangement is attached as Schedule A to the Arrangement Agreement. The following description of the Reorganization is qualified in its entirety by reference to the full text of the Arrangement Agreement.

Purpose of the Reorganization

At the present time, HBMS’ significant interests consist of its Canadian Metals division and its 50% interests in Inspiration Resources which is headquartered in the United States, and Trend which has operations in the United States and Indonesia. Inspiration Resources owns all of the common shares of Inspiration Coal, Inspiration Copper and Terra which operate in the United States. Minorco owns the remaining 50% of both Inspiration Resources and Trend, and also owns, through Mincan, approximately 44% of HBMS.

The total capital employed (total assets less current liabilities) by HBMS and the Inspiration Resources Group at December 31, 1982 was approximately \$US850 million, of which approximately \$US270 million was employed by HBMS in Canada and approximately \$US580 million was employed by the Inspiration Resources Group, primarily in the United States and also in Indonesia. A significant part of HBMS’ interests is represented by its investment holdings in the Inspiration Resources Group and is being managed through a complex holding-company structure and therefore subject to the limitations, particularly financing limitations, of a holding-company. The proposed Reorganization, which will pool the joint interests of HBMS and Minorco in Inspiration Resources and Trend with HBMS’ directly-owned interests in the Canadian Metals division, will simplify and rationalize the existing corporate and management structures.

Under the terms of the Reorganization, Inspiration Resources would be reorganized to become a publicly traded company located in the United States. HBMS Public Shareholders would either exchange all of their HBMS Common Shares for Inspiration Resources Common Shares (on a 1.15 to 1 basis) or would convert all of their HBMS Common Shares into newly-created HBMS Special Shares (on a 1.10 to 1 basis), and Inspiration Resources would become the holder of all the HBMS Common Shares. The larger premium for those HBMS Public Shareholders who elect to receive Inspiration Resources Common Shares in exchange for their HBMS Common Shares is designed to encourage a significant public participation in the Inspiration Resources Common Shares.

The Reorganization would permit HBMS Shareholders to participate in the equity ownership of Inspiration Resources (a Maryland corporation) either directly by owning Inspiration Resources Common Shares or indirectly by holding HBMS Special Shares. Holders of HBMS Special Shares will continue to have the tax advantages of holding shares of a Canadian company. The HBMS Special Shares are exchangeable by the holders for Inspiration Resources Common Shares (on a 1 to 1 basis, subject to adjustment in certain events) and will be automatically exchanged in 10 years subject to extension. The Reorganization has thus been designed to enable corporate objectives to be met in a manner consistent with the tax and other investment requirements of the HBMS Shareholders.

During the past five years, HBMS and Inspiration Resources have carried on a program of expansion and diversification within the natural resources industry, as well as modernization of existing businesses, involving substantial capital expenditures and investments in base metals, petroleum, agricultural chemicals and coal. This program was funded to a major degree by external borrowing which, in conjunction with the economic recession, has resulted in a significant equity funding requirement.

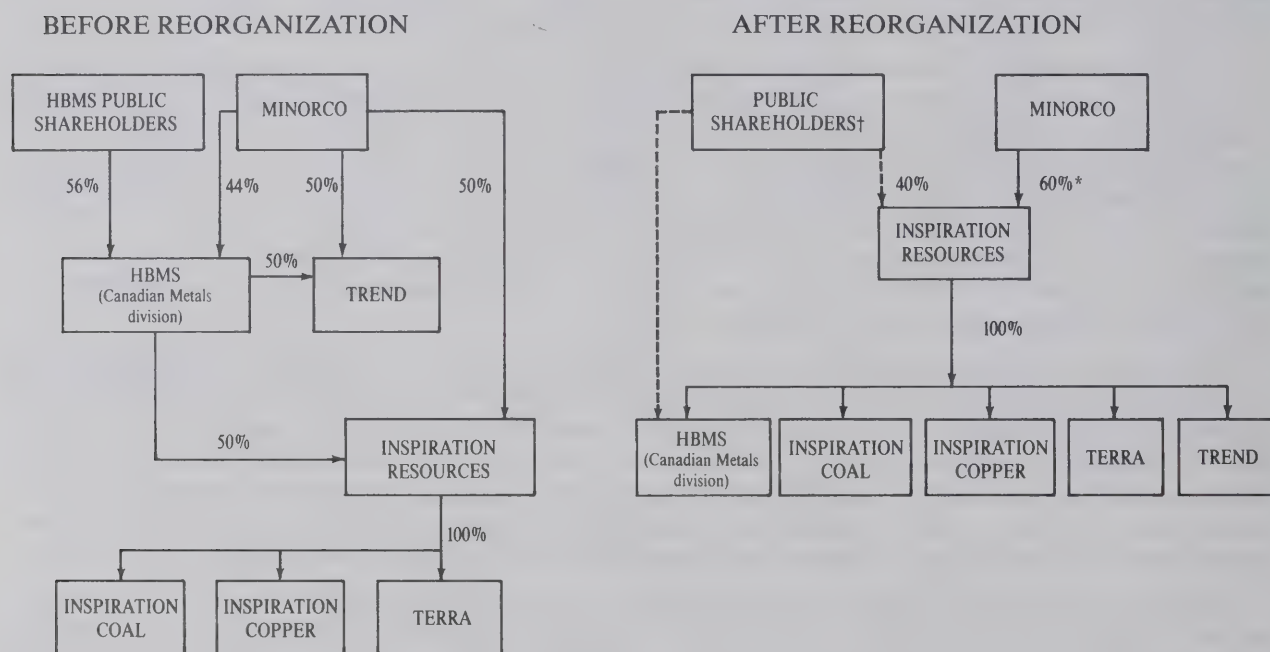
The Board of Directors of HBMS believes that the corporate structure that would result from the Reorganization would be more appropriate in these circumstances because the reorganized entity should be more attractive to equity investors as well as to lenders. The Board of Directors anticipates that the greater investment appeal of the more simplified ownership structure and the creation of a larger United States public company would permit greater financing flexibility in the Canadian and United States capital markets.

It is planned that, subject to market conditions, upon completion of the Reorganization both HBMS and Inspiration Resources will seek additional equity capital in Canada and the United States for the purpose of reducing indebtedness. Provided that the Reorganization is completed, Minorco has agreed to invest \$US80

million in equity capital of Inspiration Resources in 1983, \$US30 million of which represents reinvestment of an existing loan to Inspiration Resources. Accordingly, the Reorganization would ensure additional equity support from HBMS' indirect principal shareholder and thereby reduce the capital requirements that would otherwise have to be met. It should be noted that the Inspiration Resources Group will require significant and continuing financial support by HBMS and Minorco if the Reorganization does not take place.

The business of Inspiration Resources after the Reorganization will consist of five business segments, namely, base metal mining in Canada (Canadian Metals division), copper mining in the United States (Inspiration Copper), coal mining in the United States (Inspiration Coal), production and sale of agricultural chemicals in the United States (Terra), and petroleum exploration and production in the United States and Indonesia (Trend).

The chart below shows the corporate structure of HBMS and the Inspiration Resources Group as it presently exists and as it will be immediately following the Reorganization (voting share ownership percentages are approximate):



†The former HBMS Public Shareholders will hold either Inspiration Resources Common Shares or HBMS Special Shares which represent an indirect interest in Inspiration Resources.

*The approximate 60% equity interest of Minorco represents an initial voting interest after the Reorganization of slightly less than 50%.

Description of the Reorganization

Meeting of HBMS Shareholders

The Meeting has been called to consider and, if thought fit, to pass, with or without amendment, the Special Resolution approving the Arrangement Agreement providing for the Arrangement. As a result of the Arrangement, Inspiration Resources will become the sole holder of HBMS Common Shares.

Restructuring of HBMS and Minorco Interests

Subject to the Special Resolution being approved by the HBMS Shareholders and the HBMS Public Shareholders and subject to the Arrangement being approved by the Court, then on or immediately prior to the Effective Date, a series of related transactions involving affiliates of HBMS and Minorco will be completed, including a recapitalization of the share capital of Inspiration Resources. The related transactions and the recapitalization will be done in a manner which will ensure that the beneficial interests of Minorco in the combined assets of HBMS and the Inspiration Resources Group, as a result of the Reorganization but before the payment of the premiums, will be 64% (assuming no HBMS Public Shareholders dissent and receive cash). See "THE REORGANIZATION—Equity Interests Before and After the Reorganization". Following the completion of such

transactions, Inspiration Resources will hold all of the outstanding common shares of Trend, and HBMS will hold directly 50% of the then issued and outstanding Inspiration Resources Common Shares.

The Arrangement

The Arrangement is to be carried out pursuant to Section 185.1 of the CBCA and will become effective after the Order of the Court approving the Arrangement has been granted and on the date (the Effective Date, which is expected to be July 6, 1983) shown in the certificate of amendment to be issued to HBMS by the Director under the CBCA in respect of the Arrangement. On the Effective Date:

- (a) Inspiration Resources will become the sole holder of the HBMS Common Shares;
- (b) each HBMS Public Shareholder, other than any shareholder who has exercised his right of dissent in respect of the Special Resolution approving the Arrangement Agreement, will become, at the shareholder's option, the holder of either
 - i) HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share held; or
 - ii) Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share held;
- (c) Mincan will exchange all of its HBMS Common Shares for Inspiration Resources Common Shares or, in certain events outlined below, will exchange and convert all of its HBMS Common Shares for a combination of Inspiration Resources Common Shares and HBMS Special Shares; see "THE REORGANIZATION—Equity Interests Before and After the Reorganization" for a description of the reduction of Mincan's and Minorco's interests in Inspiration Resources;
- (d) each HBMS Canadian Public Shareholder whose election has not been received by a Depositary on or before the close of business on the day immediately preceding the Effective Date will be deemed to have elected to convert each HBMS Common Share held into 1.10 HBMS Special Shares; and
- (e) each HBMS Non-Canadian Public Shareholder whose election has not been received by a Depositary on or before the close of business on the day immediately preceding the Effective Date will be deemed to have elected to receive 1.15 Inspiration Resources Common Shares for each HBMS Common Share held.

In the event that the trading price of HBMS Common Shares immediately before the Effective Date does not exceed \$Cdn 20.80 per HBMS Common Share, Mincan has agreed to exchange all of its HBMS Common Shares for Inspiration Resources Common Shares. The number of Inspiration Resources Common Shares that will be received by Mincan will be equal to the number of HBMS Common Shares owned by Mincan immediately before the Effective Date less the number of Inspiration Resources Common Shares representing the 10% share premium received by HBMS Public Shareholders who convert their HBMS Common Shares to HBMS Special Shares and the 15% share premium received by HBMS Public Shareholders who exchange their HBMS Common Shares with HBMS for Inspiration Resources Common Shares.

In the event that the trading price of HBMS Common Shares immediately before the Effective Date exceeds \$Cdn 20.80 per HBMS Common Share, Mincan may, at its option, elect to exchange its HBMS Common Shares for both HBMS Special Shares and Inspiration Resources Common Shares. This election is intended to ensure that the exchange by Mincan will not have adverse tax consequences to Mincan, while at the same time ensuring that a large proportion of Mincan's HBMS Common Shares will be exchanged for Inspiration Resources Common Shares.

If Mincan exercises this election, the aggregate of the number of Inspiration Resources Common Shares and HBMS Special Shares received by Mincan will be equal to the number of Inspiration Resources Common Shares that would have been received by Mincan had it not made such an election. While the number of Inspiration Resources Common Shares and the number of HBMS Special Shares to be received by Mincan will be determined by Mincan, Mincan has agreed to select the relative proportions in such manner that the aggregate market value of Inspiration Resources Common Shares to be received by it will not be less than \$Cdn 89.5 million.

Conditions to the Implementation of the Arrangement

Pursuant to the Arrangement Agreement, the obligations of HBMS, Inspiration Resources and Minorco to cause the Arrangement to become effective are subject to certain conditions, which, except for the conditions

described in paragraphs (i), (ii), (iii), (iv), (v) and (vi) below, may be waived in certain instances. The conditions to the implementation of the Arrangement include the following:

- (i) the transactions referred to under “THE REORGANIZATION—Description of the Reorganization—Restructuring of HBMS and Minorco Interests” shall have been completed;
- (ii) the Arrangement Agreement, with or without amendment, shall have been approved by the HBMS Shareholders and the HBMS Public Shareholders in the manner contemplated in the Interim Order;
- (iii) the Order approving the Arrangement shall have been granted;
- (iv) the Certificate of Amendment shall have been issued by the Director under the CBCA;
- (v) Articles of Amendment and Restatement of Inspiration Resources effecting the recapitalization of the share capital of Inspiration Resources described in “INFORMATION CONCERNING INSPIRATION RESOURCES—Share Capital” shall have been filed for record with the Maryland State Department of Assessments and Taxation;
- (vi) a Registration Statement on Form S-1 under the United States Securities Act of 1933 with respect to the Inspiration Resources Common Shares to be issued upon the exchange of HBMS Special Shares to be issued pursuant to the Arrangement shall be effective; and
- (vii) rights of dissent from the Special Resolution approving the Arrangement Agreement shall not have been exercised in respect of more than 511,552 HBMS Common Shares (5% of the outstanding HBMS Common Shares on the Effective Date).

In addition, it is a condition that the representations and warranties of HBMS, Inspiration Resources and Minorco set forth in the Arrangement Agreement be true as of the Effective Date. The Arrangement Agreement may also be terminated by the unanimous agreement of HBMS, Inspiration Resources and Minorco at any time on or prior to the Effective Date, whether prior to or after approval by the HBMS Shareholders and the HBMS Public Shareholders. The Arrangement Agreement will terminate on March 31, 1984 in the event that the Arrangement is not completed by such date.

Votes Required for the Arrangement

The Interim Order relating to the consideration of the Arrangement Agreement at the Meeting states that, in order for the Arrangement to be implemented, the Special Resolution must be passed, with or without amendment, by the affirmative vote of at least 66 $\frac{2}{3}$ % of the votes cast by the HBMS Shareholders present in person or represented by proxy at the Meeting and, in addition, by at least 66 $\frac{2}{3}$ % of the votes cast by the HBMS Public Shareholders present in person or represented by proxy at the Meeting. Holders of HBMS Common Shares who do not vote in person or by proxy in respect of the Special Resolution will be disregarded in the above determinations. Mincan has advised HBMS that it intends to vote for the Special Resolution.

Court Approval

Following the approval of the HBMS Shareholders and the HBMS Public Shareholders of the Special Resolution, HBMS must apply to the Court for the Order approving the Arrangement. On hearing HBMS’ application, the Court, among other things, will be asked to consider the fairness of the Arrangement and may, by order, approve the Arrangement either as presented or subject to compliance with such terms and conditions as the Court thinks fit having regard to the rights and interests of HBMS Shareholders.

Subject to the approval of the HBMS Shareholders and the HBMS Public Shareholders of the Arrangement, the application for the Order will be heard at 10:30 a.m. (Toronto time) on June 9, 1983 in the Supreme Court of Ontario, at Osgoode Hall, 130 Queen Street West, Toronto, Ontario. Any HBMS Shareholder is entitled to be present or represented at such hearing and may present evidence or argument with respect to the fairness of the Arrangement.

Filing of Articles of Arrangement

If the Court makes the Order approving the Arrangement and subject to the satisfaction of the other conditions provided for in the Arrangement Agreement, including the conditions referred to above, articles of arrangement will be filed with the Director under the CBCA. The CBCA provides that, upon receipt of such articles, the Director shall issue a certificate of amendment and the Arrangement becomes effective on the date shown in such certificate. It is anticipated that the Effective Date will be July 6, 1983.

Procedure for Exchange and Conversion of HBMS Common Shares

A transmittal and election form will be forwarded to each HBMS Shareholder on or about June 9, 1983. Such transmittal and election form will specify the details of the procedure for the exchange and conversion effected by the Arrangement and the procedure for surrendering HBMS Common Shares to a Depositary. Commencing on the Effective Date, such Depositary will issue, upon receipt of certificates representing HBMS Common Shares and any other required documents, HBMS Special Shares or Inspiration Resources Common Shares in accordance with the instructions set forth in the transmittal and election form.

IN THE EVENT A DEPOSITARY HAS NOT RECEIVED AN ELECTION FROM AN HBMS CANADIAN PUBLIC SHAREHOLDER ON OR BEFORE THE CLOSE OF BUSINESS ON THE DAY IMMEDIATELY PRECEDING THE EFFECTIVE DATE, SUCH HOLDER SHALL BE DEEMED TO HAVE ELECTED TO HAVE CONVERTED EACH HBMS COMMON SHARE HELD INTO 1.10 HBMS SPECIAL SHARES. IN THE EVENT A DEPOSITARY HAS NOT RECEIVED AN ELECTION FROM AN HBMS NON-CANADIAN PUBLIC SHAREHOLDER ON OR BEFORE THE CLOSE OF BUSINESS ON THE DAY IMMEDIATELY PRECEDING THE EFFECTIVE DATE, SUCH HOLDER SHALL BE DEEMED TO HAVE ELECTED TO HAVE EXCHANGED EACH HBMS COMMON SHARE HELD FOR 1.15 INSPIRATION RESOURCES COMMON SHARES.

No scrip certificates representing fractional HBMS Special Shares or Inspiration Resources Common Shares will be issued to HBMS Shareholders. In lieu thereof, each HBMS Shareholder shall be entitled to a cash payment equal to such shareholder's pro rata portion of the price received by a Depositary upon the sale of whole shares representing an accumulation of all fractional interests of HBMS Special Shares or Inspiration Resources Common Shares to which such HBMS Shareholder would be otherwise entitled under the Arrangement. Arrangements will be made for the sale of such shares for cash during the sixty-day period following the Effective Date through a Depositary. Such Depositary shall, as soon as practicable after such sale, send cheques for the amounts of such payments to the HBMS Shareholders entitled to such payments. Any applicable brokerage commission will be paid by HBMS or Inspiration Resources, as the case may be.

Independent Committee

The Board of Directors of HBMS appointed the Independent Committee on November 2, 1982. After consulting the financial investment advisors of HBMS as to the relative values of the Inspiration Resources Group and HBMS and as to what would be fair to the HBMS Public Shareholders, the Independent Committee negotiated with Minorco to determine the relative equity interests in Inspiration Resources to be held by Minorco and HBMS Public Shareholders following the Reorganization and to determine an appropriate form of corporate structure in order to achieve the purposes of the Reorganization. See "THE REORGANIZATION—Purpose of the Reorganization".

The Independent Committee is composed of Messrs. Crawford, Jones, Lambert and Sweatman. See "INFORMATION CONCERNING HBMS—Directors and Officers".

The Independent Committee determined the Reorganization as so negotiated was fair to the HBMS Public Shareholders and reported such determination to the Board of Directors of HBMS.

None of the members of the Independent Committee is an officer or an employee of HBMS. Three of the members serve on the Executive Committee of the Board of Directors of HBMS, and two of the members serve on the Audit Committee of the Board of Directors of HBMS. None of the members of the Independent Committee is an officer, employee or a director of Inspiration Resources or Minorco or any of their affiliates, except HBMS, or owns any Inspiration Resources Common Shares or shares of Minorco or of any of their affiliates, except HBMS. As set forth in "INFORMATION CONCERNING INSPIRATION RESOURCES—Directors and Officers", each of the members of the Independent Committee has been proposed to be elected as a director of Inspiration Resources prior to the Reorganization. Mr. Crawford is a partner of Osler, Hoskin & Harcourt, which has acted as Canadian legal counsel to HBMS and which is acting in that capacity in connection with the Reorganization.

Fairness Opinions

The Board of Directors of HBMS retained McLeod Young Weir Limited, a Canadian investment dealer, and The First Boston Corporation, a United States investment banking firm, to advise the Independent Committee and the Board of Directors of HBMS as to the terms of the Arrangement. Each of McLeod Young Weir Limited and The First Boston Corporation has advised the Board of Directors of HBMS that, in its opinion, the terms of the Arrangement are fair from a financial point of view to the HBMS Public Shareholders. A copy of each of the fairness opinions is attached as Appendix 1 hereto. No director or officer or controlling shareholder of McLeod Young Weir Limited or of The First Boston Corporation is a director or officer of HBMS, Inspiration Resources,

Mincan or Minorco, or any of their affiliates. However, a managing director of The First Boston Corporation is a director of Terra. Each of such firms has advised HBMS that as of May 2, 1983 it did not hold beneficially any securities of HBMS, Inspiration Resources, Mincan or Minorco. The fees paid or payable to such firms for services rendered in connection with the Reorganization, excluding out-of-pocket expenses, are in the aggregate approximately \$US2 million. The First Boston Corporation has in the past provided investment banking services for HBMS and its affiliates and both firms may be expected to provide such services in the future.

Recommendation by the Board of Directors of HBMS

On March 3, 1983, the Board of Directors of HBMS agreed in principle with Minorco on the terms of the Reorganization.

ON MAY 2, 1983, THE BOARD OF DIRECTORS OF HBMS DETERMINED THAT THE REORGANIZATION IS FAIR TO THE HBMS PUBLIC SHAREHOLDERS AND AUTHORIZED THE SUBMISSION OF THE ARRANGEMENT AGREEMENT TO THE HBMS SHAREHOLDERS FOR APPROVAL. THE BOARD OF DIRECTORS OF HBMS RECOMMENDS THAT THE HBMS PUBLIC SHAREHOLDERS VOTE FOR THE SPECIAL RESOLUTION APPROVING THE ARRANGEMENT AGREEMENT.

Seven members of the Board of Directors of HBMS are affiliated with Minorco or Inspiration Resources or with an affiliate of either of them. When the Board of Directors of HBMS considered the Reorganization on March 3, 1983 and May 2, 1983, each of such directors declared the nature of his interest in the Reorganization and refrained from voting. See "INFORMATION CONCERNING HBMS—Directors and Officers".

Income Tax Consequences of the Arrangement to HBMS Public Shareholders

The following is a general summary of the Canadian and United States federal income tax consequences of the Arrangement to HBMS Public Shareholders based on advice received by HBMS from Osler, Hoskin & Harcourt as to Canadian federal income tax consequences and from Shearman & Sterling as to United States federal income tax consequences. HBMS has not requested advance income tax rulings from the Canadian Department of National Revenue, Taxation (the "Department") or from the United States Internal Revenue Service, in respect of any matter relating to the Arrangement. Because the law in this area is complex and the various provincial, state and local income tax consequences as well as the particular facts relating to each shareholder vary, HBMS Public Shareholders should consult their own tax advisers. No representation with respect to the tax consequences of the Arrangement to any particular shareholder is made hereby. THIS SUMMARY IS NOT INTENDED TO BE NOR SHOULD IT BE CONSTRUED TO BE LEGAL OR TAX ADVICE TO ANY PARTICULAR HBMS PUBLIC SHAREHOLDER.

Canadian Federal Income Tax Considerations

The following general summary is based on the provisions of the Tax Act and the Regulations thereunder enacted as of the date hereof. The summary applies only to an HBMS Public Shareholder who holds his HBMS Common Shares as capital property and who, with respect to all of the HBMS Common Shares owned by him elects to: (i) convert all such shares to HBMS Special Shares, or (ii) exchange all such shares for Inspiration Resources Common Shares, or (iii) dissent with respect to all such shares.

The Arrangement

Conversion Into HBMS Special Shares

As discussed below, it is expected that the conversion of HBMS Common Shares to HBMS Special Shares will not result in any tax under the Tax Act being payable by an HBMS Public Shareholder.

An HBMS Public Shareholder who converts his HBMS Common Shares to HBMS Special Shares will be deemed to have acquired the HBMS Special Shares at a cost equal to the adjusted cost base to him of his HBMS Common Shares less the fair market value, if any, of any property received by such shareholder for his HBMS Common Shares other than HBMS Special Shares. While it might be argued that certain of the rights attached to the HBMS Special Shares arising from the Inspiration Resources Agency Agreement are property other than HBMS Special Shares, HBMS is of the view that the fair market value of such rights, if any, as are property other than HBMS Special Shares is nominal. Such shareholder will be deemed to have disposed of his HBMS Common Shares for proceeds of disposition equal to the aggregate of the cost to him of the HBMS Special Shares, as described above, and the fair market value, if any, of the property other than HBMS Special Shares received by him. Accordingly, on the basis that the value of property other than HBMS Special Shares received by an HBMS

Shareholder on the conversion of his HBMS Common Shares is nominal, the proceeds of disposition of his HBMS Common Shares will be equal to the adjusted cost base to him of such shares and the conversion will not result in any tax under the Tax Act being payable by the HBMS Common Shareholder.

For those shareholders who held any of their HBMS Common Shares on December 31, 1971, the current administrative position of the Department is that in determining the cost and adjusted cost base of the HBMS Special Shares, the transitional rules in the Income Tax Application Rules (the "ITAR") will not be generally applicable because HBMS amalgamated with three of its subsidiaries on December 31, 1978 and one of its subsidiaries on December 31, 1979. However, based on the current administrative position of the Department the ITAR would be applicable to such shareholder in determining the adjusted cost base of his HBMS Common Shares and the relevant date for such determination would in most cases be December 31, 1979.

Exchange For Inspiration Resources Common Shares

An HBMS Public Shareholder who is resident in Canada (other than a private corporation, as defined in the Tax Act) who elects to receive Inspiration Resources Common Shares will be deemed to have disposed of his HBMS Common Shares for proceeds of disposition equal to the fair market value of the Inspiration Resources Common Shares at the time of the Arrangement. In determining the fair market value of the Inspiration Resources Common Shares reference should be made to the market trading price of the shares following the Arrangement.

An HBMS Public Shareholder which is a private corporation and which elects to receive and does receive Inspiration Resources Common Shares from Inspiration Resources will be deemed to have disposed of its HBMS Common Shares for proceeds of disposition equal to the fair market value of the Inspiration Resources Common Shares at the time of the Arrangement. In determining the fair market value of the Inspiration Resources Common Shares reference should be made to the market trading price of the shares following the Arrangement.

An HBMS Public Shareholder which is a private corporation which elects to receive and does receive Inspiration Resources Common Shares from HBMS will be deemed to have received a taxable dividend equal to the amount by which the fair market value of the Inspiration Resources Common Shares at the time of the Arrangement exceeds the paid-up capital of the HBMS Common Shares immediately before the Arrangement. The paid-up capital of the HBMS Common Shares immediately before the Arrangement will be \$Cdn7.16 per share. A refundable tax at the rate of 25% may be payable by the private corporation in respect of the dividend so deemed to have been received by it. In addition, the private corporation will be regarded as having disposed of its HBMS Common Shares and to have realized a capital gain (or capital loss) in the amount by which the paid-up capital of its HBMS Common Shares exceeds (or is exceeded by) the adjusted cost base to it of its HBMS Common Shares. The capital loss, if any, so realized by the private corporation will be reduced by the amount of dividends received by it on the HBMS Common Shares at any time unless the private corporation owned the HBMS Common Shares for 365 days or longer and the private corporation, together with non-arm's length persons, owned 5% or less of the HBMS Common Shares at the time of the receipt of any dividends.

An HBMS Public Shareholder who is not a resident in Canada will not be subject to tax under the Tax Act in respect of the exchange of his HBMS Common Shares for Inspiration Resources Common Shares unless the HBMS Common Shares are taxable Canadian property within the meaning of the Tax Act and the non-resident is not entitled to relief under an applicable tax treaty. Generally, HBMS Common Shares will be taxable Canadian property if the particular holder used the HBMS Common Shares in carrying on business in Canada or if, at any time during the five-year period immediately preceding the Arrangement, not less than 25% of the issued shares of any class of HBMS belonged to the particular shareholder, to persons with whom the particular shareholder did not deal at arm's length or to any combination thereof. HBMS Common Shares of a non-resident insurer will be taxable Canadian property if the HBMS Common Shares are used or held by it in the course of carrying on an insurance business in Canada.

Fractional Interests

As described under "THE REORGANIZATION—Procedure for Exchange and Conversion of HBMS Common Shares", no fractional HBMS Special Share or Inspiration Resources Common Share certificates will be issued. Upon the sale of the fractional interests by a Depositary each holder entitled to a fractional HBMS Special Share or Inspiration Resources Common Share will have disposed of such fractional share for proceeds of disposition equal to the amount of the cash received by him from such Depositary.

Dissenting Shareholders

The consequences under the Tax Act to a shareholder who dissents from the Arrangement (see "THE REORGANIZATION—Dissenting Shareholders' Appraisal Rights") and who receives a payment for his HBMS

Common Shares will generally be as follows. Any dissenting HBMS Public Shareholder resident in Canada (other than a private corporation) will be deemed to have disposed of his HBMS Common Shares for proceeds of disposition equal to the amount of the payment received by him from HBMS and will realize a capital gain (or a capital loss) to the extent that such proceeds of disposition exceed (or are exceeded by) his adjusted cost base of such HBMS Shares.

There is some uncertainty as to the taxation year in which a dissenting shareholder will be required to recognize the proceeds of disposition arising pursuant to the Arrangement and any dissenting shareholder is advised to consult his own tax advisers.

Any dissenting shareholder which is a private corporation or which is not a resident of Canada will be deemed to have received a taxable dividend equal to the amount, if any, by which the amount of the payment received by it exceeds the paid-up capital of its HBMS Common Shares. Any dissenting shareholder which is a private corporation may be subject to a refundable tax at the rate of 25% in respect of such deemed dividend. A non-resident shareholder will be subject to a withholding tax in respect of such deemed dividend at the rate of 25% or 15%, depending on the application of any relevant tax treaty. In the case of U.S. shareholders, the rate will generally be 15%. In addition, any shareholder who was deemed to have received a taxable dividend will be regarded as having disposed of his HBMS Common Share and to have realized a capital gain (or capital loss) in the amount by which the paid-up capital of the HBMS Common Share exceeds (or is exceeded by) the adjusted cost base to him of the HBMS Common Share. The capital loss, if any, so realized by the shareholder that is a corporation will be reduced by the amount of the dividends received by the shareholder at any time unless the shareholder owned the HBMS Common Shares for 365 days or longer and the shareholder, together with non-arm's length persons, owned 5% or less of the HBMS Common Shares at the time of the receipt of the dividend.

Subsequent Exchange of HBMS Special Shares for Inspiration Resources Common Shares

A holder of HBMS Special Shares who exchanges his HBMS Special Shares for Inspiration Resources Common Shares will be regarded as having disposed of his HBMS Special Shares for proceeds of disposition equal to the fair market value of the Inspiration Resources Common Shares at the time of the exchange. In determining the fair market value of the Inspiration Resources Common Shares reference should be made to the market trading price of the shares at the time of the exchange.

A holder of HBMS Special Shares who is not a resident of Canada will not be subject to tax under the Tax Act in respect of the exchange of his HBMS Special Shares for Inspiration Resources Common Shares unless the HBMS Special Shares are taxable Canadian property within the meaning of the Tax Act and the non-resident is not entitled to relief under an applicable tax treaty. The HBMS Special Shares will be taxable Canadian property if the particular holder used the HBMS Special Shares in carrying on business in Canada or if, at any time during the five year period immediately preceding the Arrangement, not less than 25% of the issued shares of any class of HBMS belonged to the particular shareholder, to persons with whom the particular shareholder did not deal at arm's length or to any combination thereof. HBMS Special Shares of a non-resident insurer will be taxable Canadian property if the HBMS Special Shares are used or held by it in the course of carrying on an insurance business in Canada.

Redemption by HBMS of HBMS Special Shares

A holder of HBMS Special Shares who is resident in Canada (other than a private corporation or a specified financial institution as defined in the Tax Act in circumstances described below) whose HBMS Special Share is redeemed by HBMS will be considered to have disposed of his HBMS Special Shares for proceeds of disposition equal to the aggregate of the fair market value of any assets and cash received on the redemption. Where the assets received are Inspiration Resources Common Shares in determining the fair market value of such share reference should be made to the market trading price of the shares at the time of the redemption.

On redemption by HBMS of HBMS Special Shares from a holder of HBMS Special Shares who is a person not resident in Canada, a private corporation, or a corporation that is a specified financial institution which holds the HBMS Special Shares as term preferred shares and in respect of which it is not entitled to deduct the amount of dividends paid on such shares in computing its taxable income described below under "Dividends", the shareholder will be deemed to have received a taxable dividend equal to the amount by which the aggregate of the fair market value of any assets and cash received on the redemption exceeds the paid-up capital of the HBMS Special Shares immediately before the redemption.

A refundable tax at the rate of 25% may be payable by the private corporation in respect of the dividend so deemed to have been received by it. A non-resident shareholder will be subject to a withholding tax in respect of such deemed dividend at the rate of 25% or 15%, depending on the application of any relevant tax treaty. In the case of United States shareholders, the rate will generally be 15%. In addition, any shareholder who was deemed to have received a taxable dividend will be regarded as having disposed of its HBMS Special Shares and to have realized a capital gain (or capital loss) in the amount by which the paid-up capital of its HBMS Special Shares exceeds (or is exceeded by) the adjusted cost base to it of the HBMS Special Shares. The capital loss, if any, so realized by a holder that is a corporation may be reduced by the amount of dividends received by it on the HBMS Special Shares and the HBMS Common Shares which were exchanged by it for HBMS Special Shares unless the corporation owned the HBMS Special Shares for 365 days or longer and the corporation, together with non-arm's length persons, owned 5% or less of the HBMS Special Shares at the time of the receipt of any dividends.

Dividends

A shareholder who is an individual resident in Canada will be required to include in his income the amount of any dividend received by him on the HBMS Special Shares and will be entitled to the dividend tax credit in respect of such dividends. Generally, a shareholder which is a Canadian corporation will be required to include in its income dividends received on the HBMS Special Shares and will be entitled under subsection 112(1) of the Tax Act to deduct the amount of such dividends in computing its taxable income. However, under subsection 112(2.1) of the Tax Act a corporation which is a specified financial institution (as defined in the Tax Act) will not be entitled to deduct dividends on the HBMS Special Shares if those shares are term preferred shares (as defined in the Tax Act) acquired by it in the ordinary course of business. On the assumption that certain draft Regulations under the Tax Act are proclaimed into law, the HBMS Special Shares will not be term preferred shares to a particular holder so long as the HBMS Special Shares are listed on a Canadian stock exchange and the holder, or the holder together with persons with whom the holder does not deal at arm's length, does not receive in the aggregate dividends in respect of more than 10% of the issued and outstanding HBMS Special Shares.

A shareholder which is a private corporation and a corporation resident in Canada controlled directly or indirectly by an individual or a related group of individuals may be subject to refundable tax at the rate of 25% in respect of dividends received on HBMS Special Shares to the extent that such dividends are deductible in computing its taxable income.

A shareholder not resident in Canada will be subject to a withholding tax in respect of dividends paid to him on the HBMS Special Shares at the rate of 25% or 15%, depending on the application of any relevant tax treaty. In the case of United States shareholders, the rate will generally be 15%.

A shareholder who is resident in Canada will be required to include in his income the amount of any dividends received on the Inspiration Resources Common Shares. Canadian resident individuals receiving such dividends will not be entitled to the dividend tax credit applicable to dividends from taxable Canadian corporations. United States withholding tax on the dividends will generally be eligible for foreign tax credits or deductions, where applicable. Special rules for taxation of dividends are applicable where the shareholder is a corporation which owns, directly or indirectly, not less than 10% of any class of shares of Inspiration Resources.

Qualified Investments

Inspiration Resources Common Shares will be "foreign property" under the Tax Act for pension plans, registered retirement savings plans, deferred profit sharing plans, registered home ownership plans, registered retirement income funds, registered investments and certain other tax-exempt persons.

Applications have been made to list the Inspiration Resources Common Shares on the New York Stock Exchange and the HBMS Special Shares on The Toronto Stock Exchange and such listings are subject to the formal approval of such exchanges. See "STOCK EXCHANGE LISTINGS". If Inspiration Resources Common Shares are listed for trading on the New York Stock Exchange on the Effective Date, the Inspiration Resources Common Shares will be a "qualified investment" under the Tax Act for registered retirement savings plans, deferred profit sharing plans, registered home ownership plans, registered retirement income funds and registered investments. If the HBMS Common Shares or the HBMS Special Shares are listed on The Toronto Stock Exchange on the Effective Date, HBMS Special Shares will be a "qualified investment" under the Tax Act for registered retirement savings plans, deferred profit sharing plans, registered home ownership plans, registered retirement income funds and registered investments.

United States Federal Income Tax Considerations

The following is a summary of the principal United States federal income tax consequences of the Reorganization to HBMS Shareholders. Shareholders should consult their own advisers as to the tax treatment with respect to their particular circumstances, including the application of state and local tax laws.

United States Shareholders

While the matter is not free from doubt, the transfer of HBMS Common Shares to Inspiration Resources for Inspiration Resources Common Shares probably will be a taxable transaction. In such case, a United States shareholder (including, absent treaty protection, any nonresident alien individual present in the United States for 183 days or more during his taxable year) who elects to exchange HBMS Common Shares for Inspiration Resources Common Shares would recognize gain or loss on such exchange in an amount equal to the difference between the fair market value of the Inspiration Resources Common Shares received (plus any cash received in lieu of fractional shares) at the time of exchange and his basis in the HBMS Common Shares surrendered; the gain or loss would be long-term or short-term, depending upon whether the shares surrendered were held for more than one year at the time of exchange. The shareholder's basis in the Inspiration Resources Common Shares received would be an amount equal to their fair market value at the time of exchange, and their holding period would begin on the date following the date of exchange.

It is possible that the transfer of HBMS Common Shares to Inspiration Resources for Inspiration Resources Common Shares would be a transfer within Section 351 of the Code. In such case, in general, a United States shareholder who elects to exchange HBMS Common Shares for Inspiration Resources Common Shares would not recognize gain or loss on such exchange. The shareholder's basis in the Inspiration Resources Common Shares received would be the same as his basis in the HBMS Common Shares surrendered therefor, and his holding period would include the period for which such HBMS Common Shares were held. A United States shareholder who receives cash in lieu of fractional Inspiration Resources Common Shares would recognize gain, if any, in an amount not in excess of such cash.

The conversion of HBMS Common Shares into HBMS Special Shares will qualify as a reorganization under Section 368 of the Code. Accordingly, a United States shareholder who elects to convert HBMS Common Shares into HBMS Special Shares will not be permitted to recognize loss on such exchange. While it might be argued that certain of the rights attached to the HBMS Special Shares arising from the Inspiration Resources Agency Agreement are property other than HBMS Special Shares (with the value of such rights taxable as a dividend if and to the extent that the overall transaction results in a gain to the shareholder), HBMS is of the view that the value of such rights, if any, as are property other than HBMS Special Shares is nominal. The shareholder's basis in the HBMS Special Shares received will be the same as his basis in the HBMS Common Shares surrendered therefor, and his holding period in the HBMS Special Shares will include the period for which such HBMS Common Shares were held. A United States shareholder who receives cash in lieu of fractional HBMS Special Shares will recognize capital gain or loss in an amount equal to the difference between the amount of cash received and the portion of the basis of HBMS Common Shares allocable to such fractional shares.

A United States shareholder who dissents to the Arrangement and receives cash in exchange for all of his HBMS Common Shares will be regarded as receiving such cash in redemption of his shares. Unless such shareholder is deemed to own HBMS Common Shares under the constructive ownership rules of Section 318 of the Code, he will recognize capital gain or loss in an amount equal to the difference between the amount of cash received and his basis in such HBMS Common Shares surrendered; the gain or loss will be long-term or short-term, depending upon whether the shares sold have been held for more than one year at the time of sale. Under Sections 301 and 302 of the Code, under certain circumstances, a shareholder who is deemed to own HBMS Common Shares under such constructive ownership rules would not be permitted to recognize loss but would be required to recognize ordinary income to the extent of the cash received.

A United States shareholder (including, absent treaty protection, any non-resident alien individual present in the United States for 183 days or more during his taxable year) who elects to convert his HBMS Common Shares into HBMS Special Shares and who subsequently elects to exchange HBMS Special Shares for Inspiration Resources Common Shares will recognize capital gain or loss, as the case may be, in the year of exchange equal to the difference between the fair market value of such Inspiration Resources Common Shares (plus any cash received in lieu of fractional shares) on the date of the exchange and his basis in such HBMS Special Shares. In general, such gain or loss will be long-term or short-term, depending upon whether the holding period for the shareholder's HBMS Special Shares (including, in the case of such shares received on conversion of HBMS Common Shares with a carryover basis, the period for which the HBMS Common Shares were held) is more than one year.

In general, dividends paid by Inspiration Resources to United States citizens, residents or corporations will be subject to tax at ordinary income tax rates. In general, Inspiration Resources will be required to withhold tax at the rate of 10% on payments of ordinary dividends to United States persons other than corporations and certain other exempted persons; pending legislation, however, if enacted would defer such withholding requirement until July 1, 1987 and could result in the eventual repeal of such requirement.

Non-United States Shareholders

Dividends paid by Inspiration Resources to Canadian resident individuals who are not United States citizens or residents and as to whom the dividends are not effectively connected with a United States trade or business, and to Canadian corporations as to which the dividends are not so effectively connected, generally will be subject to United States withholding tax at the rate, under the currently applicable income tax treaty, of 15%.

Dividends paid by Inspiration Resources to persons resident in other countries who are not United States citizens or residents and as to whom the dividends are not effectively connected with a United States trade or business generally will be subject to United States withholding tax at the rate of 30% or, if an income tax treaty is in effect between the country of the recipient and the United States, at the lower treaty rate.

Income Tax Consequences to HBMS and Inspiration Resources

There are no significant consequences under the Tax Act to HBMS and Inspiration Resources on the Arrangement and the corporate transactions related to the Arrangement.

Neither HBMS nor Inspiration Resources will recognize gain or loss for United States tax purposes as a result of the Arrangement. Dividends or constructive dividends (under United States tax rules pertaining to certain earnings of foreign subsidiaries) from HBMS or Trend to Inspiration Resources will result in potential tax liability to Inspiration Resources subject to reduction by losses or credits under applicable United States tax rules.

Description of HBMS Special Shares and Inspiration Resources Common Shares

HBMS Special Shares

Exchange Rights

On the Effective Date and thereafter, from time to time or at any time up to and including the last business day preceding the Automatic Exchange Date, a holder of HBMS Special Shares will be entitled to exchange all or any portion of such shares held by him for Inspiration Resources Common Shares at the then applicable share exchange rate. On the Automatic Exchange Date, all of the outstanding HBMS Special Shares will be automatically exchanged for Inspiration Resources Common Shares at the then applicable share exchange rate. In addition, in the event of the liquidation, dissolution or winding-up of Inspiration Resources, on the last date on which an Inspiration Resources shareholder will be entitled to fully participate in such liquidation, dissolution or winding-up, the HBMS Special Shares will be automatically exchanged for Inspiration Resources Common Shares at the then applicable share exchange rate. See the conditions attaching to the HBMS Special Shares attached as Exhibit I to the Arrangement which is attached as Schedule A to the Arrangement Agreement.

Pursuant to the Inspiration Resources Agency Agreement, Inspiration Resources will irrevocably reserve for issuance sufficient Inspiration Resources Common Shares to allow for the exchange of all HBMS Special Shares outstanding from time to time. Such Inspiration Resources Common Shares will be issued from time to time and delivered through the Trustee to holders of HBMS Special Shares who elect to exercise their exchange rights upon presentation to the Trustee of certificates for the HBMS Special Shares to be so exchanged, suitably endorsed for such exchange. The share exchange rate applicable to such exchanges will initially be one Inspiration Resources Common Share for each HBMS Special Share but will be adjusted in certain events as described below.

Any exchange of HBMS Special Shares for Inspiration Resources Common Shares will be effected without charge to the holder, except for any transfer taxes payable on account of any transfer involved in the delivery of Inspiration Resources Common Shares (or, in the case of any partial exercise of the right to exchange, HBMS Special Shares) to a person other than the holder. See the Inspiration Resources Agency Agreement attached as Schedule C to the Arrangement Agreement which is attached as Appendix 3.

No scrip certificates representing fractional Inspiration Resources Common Shares will be issued in satisfaction of the exchange rights. In lieu thereof, arrangements will be made for a cash payment by the Trustee to the holders of HBMS Special Shares entitled to such fractional interests. Any applicable brokerage commission will be paid by Inspiration Resources. See the Inspiration Resources Agency Agreement attached as Schedule C to the Arrangement Agreement which is attached as Appendix 3.

Dividend and Voluntary Liquidation Amounts Guarantee

Under the terms of the Inspiration Resources Agency Agreement, Inspiration Resources will agree, for the benefit of HBMS and the holders of HBMS Special Shares, to provide sufficient funds or property to HBMS to ensure that HBMS will be in a financial position to pay dividends at the same time as, and of a value equal to the Canadian dollar equivalent of, the dividends declared from time to time and paid on the Inspiration Resources Common Shares. Inspiration Resources will also agree for the benefit of HBMS and the holders of HBMS Special Shares to provide sufficient funds or property to HBMS to ensure that HBMS will be in a financial position upon

a voluntary liquidation of HBMS to satisfy the liquidation value to which the holders of such shares are entitled. On such voluntary liquidation of HBMS, a holder of HBMS Special Shares shall be entitled to receive the number of Inspiration Resources Common Shares for which the HBMS Special Shares held by such holder are then exchangeable or, at the option of HBMS, the aggregate Current Market Price (as defined below) of such number of Inspiration Resources Common Shares, in either case together with the amount of all unpaid dividends to which such holder is then entitled. Inspiration Resources will also covenant not to declare or pay any dividend on the Inspiration Resources Common Shares without ensuring that HBMS is in a financial position to declare and pay, and declares and pays, a corresponding dividend on the HBMS Special Shares. See the Inspiration Resources Agency Agreement attached as Schedule C to the Arrangement Agreement which is attached as Appendix 3.

Voting Rights in Inspiration Resources

The Inspiration Resources Agency Agreement will establish the Trust to hold the Inspiration Resources Trust Shares and will provide the mechanism for the voting of such shares by or on behalf of the holders of the HBMS Special Shares.

Pursuant to the Inspiration Resources Agency Agreement, the Trustee will be obligated to exercise the voting rights attaching to Inspiration Resources Trust Shares in accordance with the instructions of the holders of HBMS Special Shares. Each registered holder of HBMS Special Shares will be entitled to instruct the Trustee to vote, or to deliver a proxy in favour of the registered holder enabling such holder or his nominee to attend personally and to vote, on the basis of one vote in Inspiration Resources for each whole Inspiration Resources Common Share for which the HBMS Special Shares held by such holder are then exchangeable. The Trustee will agree to exercise the voting rights attaching to the Inspiration Resources Trust Shares only to the extent that it is instructed to do so by the holders of HBMS Special Shares. Inspiration Resources Trust Shares as to which no instructions are received will not be voted by the Trustee. The Trustee will agree that, upon receipt by it of a notice of a meeting of the shareholders of Inspiration Resources, it will send to each holder of record of HBMS Special Shares a copy of such notice together with a statement that each such holder as of a specified record date (which shall be the record date established by Inspiration Resources for purposes of determining shareholders entitled to vote at such meeting) is entitled to instruct the Trustee with respect to the voting of a specified number of Inspiration Resources Trust Shares at such meeting (including the designation of such holder or his nominee or a management nominee to vote the shares as proxy, if desired) equal to the number of whole Inspiration Resources Common Shares for which the HBMS Special Shares held by such holder on such record date are then exchangeable. The required discretionary forms of proxy appointments will be provided by the Trustee for meetings of the shareholders of Inspiration Resources.

In addition, Inspiration Resources will undertake to forward promptly to the Trustee copies of all proxy materials, reports or other written communications which are distributed by Inspiration Resources to the holders of the Inspiration Resources Common Shares and the Trustee will undertake to forward promptly to each holder of HBMS Special Shares copies of all such communications received by it. See the Inspiration Resources Agency Agreement attached as Schedule C to the Arrangement Agreement which is attached as Appendix 3.

Adjustments to Share Exchange Rate, Dividends and Voting Rights

The rate at which HBMS Special Shares may be exchanged for Inspiration Resources Common Shares, the dividends and the voting rights applicable to the HBMS Special Shares will be subject to adjustment from time to time in certain events. If holders of HBMS Special Shares are permitted to participate in any such event or a comparable event within 45 days, the share exchange rate, the dividends and the voting rights applicable to the HBMS Special Shares will not be subject to adjustment. Among the events which give rise to an adjustment are the following:

- (i) the subdivision or consolidation of the outstanding Inspiration Resources Common Shares or the issue to all or substantially all the holders of Inspiration Resources Common Shares of a stock dividend or other distribution in Inspiration Resources Common Shares or of securities convertible into Inspiration Resources Common Shares, other than as a dividend which results in an equivalent dividend on the HBMS Special Shares in accordance with the HBMS Special Share conditions;
- (ii) the issue of rights, options or warrants to all or substantially all the holders of Inspiration Resources Common Shares entitling them within a period of no longer than 45 days after the record date for such issue to acquire (a) Inspiration Resources Common Shares at less than 95% of the Current Market Price (as defined below) of the Inspiration Resources Common Shares, or (b) securities convertible into Inspiration Resources Common Shares where the conversion price at the date of issue of such convertible securities is less than 95% of the Current Market Price of the Inspiration Resources Common Shares; or

- (iii) the distribution to all or substantially all the holders of Inspiration Resources Common Shares of (a) shares of Inspiration Resources of any class other than Inspiration Resources Common Shares, (b) rights, options or warrants to acquire Inspiration Resources Common Shares or securities convertible into Inspiration Resources Common Shares or assets of Inspiration Resources, (c) evidences of indebtedness of Inspiration Resources, or (d) any other assets of Inspiration Resources (other than those referred to above and a dividend which results in a dividend on the HBMS Special Shares in accordance with the HBMS Special Share conditions).

The phrase “Current Market Price” is defined in the HBMS Special Share conditions to mean, in respect of an Inspiration Resources Common Share at any date, the Canadian dollar equivalent of the weighted average of the daily closing prices at which the Inspiration Resources Common Shares have traded during a period of 30 consecutive trading days commencing 45 business days before such date on the New York Stock Exchange, or, if the Inspiration Resources Common Shares are not then listed on the New York Stock Exchange, on such other stock exchange or automated quotation system on which Inspiration Resources Common Shares are listed or quoted, as the case may be, as may be selected by the Board of Directors of HBMS for such purpose; provided, however, that if in the opinion of the Board of Directors of HBMS the public distribution or trading activity of Inspiration Resources Common Shares does not during such period create a market which reflects the fair market value of an Inspiration Resources Common Share, then the Current Market Price of an Inspiration Resources Common Share shall be determined by the Board of Directors of HBMS based upon the advice of such qualified independent financial advisers as the Board of Directors of HBMS may deem to be appropriate.

Under the Inspiration Resources Agency Agreement, Inspiration Resources will give at least 21 days’ notice to holders of HBMS Special Shares of the record date for any of the above events, other than subdivisions or consolidations. Inspiration Resources will not be required to make adjustments in the share exchange rate unless the cumulative effect of such adjustments would change the share exchange rate then in effect by at least 1%.

Voting Rights in HBMS

The HBMS Special Shares do not carry general voting rights. However, the holders of HBMS Special Shares will have the class voting rights prescribed by the CBCA **except** with respect to any amendment to the articles of HBMS to (a) create a new class of shares equal or superior to the HBMS Special Shares or (b) increase or decrease the maximum number of such equal or superior shares. Inspiration Resources has agreed that the HBMS Special Shares held by it from time to time shall not be voted until such time as no HBMS Special Shares are held by public shareholders.

Redemption of HBMS Special Shares

HBMS may on the business day immediately preceding the date which is ten years after the Effective Date, which is anticipated to be July 6, 1993 and, in the event such date is extended, at any time thereafter until such extended date, redeem the whole or any part of the then outstanding HBMS Special Shares on payment of the redemption amount payable on such shares, which amount shall be the aggregate market value on the redemption date of that number of Inspiration Resources Common Shares into which the HBMS Special Shares to be redeemed are exchangeable on such date. The redemption amount may be paid in cash or by transferring to the holder of the HBMS Special Shares the number of Inspiration Resources Common Shares into which his HBMS Special Shares are then exchangeable on such date, in each case together with the amount of all unpaid dividends to which such holder is then entitled.

In the event Inspiration Resources sells to a non-affiliate, as defined in the HBMS Special Share conditions, all of the HBMS Common Shares held by it, or HBMS sells, transfers or conveys to a non-affiliate all or substantially all of its assets, HBMS may, at any time thereafter, redeem the HBMS Special Shares on payment of the redemption price. See the conditions attaching to the HBMS Special Shares attached as Exhibit I to the Arrangement which is attached as Schedule A to the Arrangement Agreement.

Maintenance of Voting Rights in Inspiration Resources

Inspiration Resources will agree pursuant to the Inspiration Resources Agency Agreement that it will take no action that will change the voting rights per share of the Inspiration Resources Common Shares or the Inspiration Resources Trust Shares without identically changing the voting rights per share of the Inspiration Resources Trust Shares or the Inspiration Resources Common Shares, respectively.

Inspiration Resources Common Shares

Immediately prior to the Reorganization, the share capital of Inspiration Resources will be recapitalized with the result that a total of 50,000,000 Inspiration Resources Common Shares, without par value, 10,000,000 Inspiration Resources Class A Shares, without par value, and 16,500,000 Inspiration Resources Trust Shares, par value \$US0.0001 per share, will be authorized. The Inspiration Resources Common Shares will be entitled to one vote per share, voting as a class with the Inspiration Resources Class A Shares and the Inspiration Resources Trust Shares. The Inspiration Resources Common Shares and Inspiration Resources Class A Shares will be entitled to share equally, on a per share basis, in such dividends and other distributions as may be lawfully declared or paid, from time to time, by the Board of Directors of Inspiration Resources. Neither the Inspiration Resources Common Shares nor the Inspiration Resources Class A Shares will be redeemable, and the holders of such shares will not be entitled to pre-emptive rights. In the event of any liquidation, dissolution or winding up of Inspiration Resources, the Inspiration Resources Common Shares, Inspiration Resources Class A Shares and Inspiration Resources Trust Shares will rank *pari passu*, up to an amount equal to \$US0.0001 per share, with respect to distributions of the assets of Inspiration Resources available for distribution to shareholders. The Inspiration Resources Common Shares and Inspiration Resources Class A Shares will also rank *pari passu* with respect to any distributions of the assets of Inspiration Resources in excess of \$US0.0001 per share, however, the Inspiration Resources Trust Shares will not be entitled to any such distributions in excess of \$US0.0001 per share. See “INFORMATION CONCERNING INSPIRATION RESOURCES—Share Capital” for a detailed description of the capitalization of Inspiration Resources (including the conversion rights attaching to the Inspiration Resources Class A Shares) following the recapitalization of Inspiration Resources to take place prior to the Reorganization.

Comparison of Shareholders’ Rights Under Maryland and Canadian Law; Prospective Maryland Legislation

There are several significant differences between the rights of shareholders under the General Corporation Law of the State of Maryland, the jurisdiction of incorporation of Inspiration Resources, and the rights of shareholders under the CBCA, the law of incorporation of HBMS, which might be considered to be adverse to HBMS Shareholders. These differences are as follows:

1. The General Corporation Law of the State of Maryland does not provide as a matter of law for the shareholders of a particular class of shares of a Maryland corporation to have a separate class vote on matters which affect the rights of that class of shares directly or indirectly in a manner different from other classes. The charter of Inspiration Resources will not provide for such a right and, accordingly, a class vote would not be required to implement a change in the charter of Inspiration Resources which would alter the rights of one class of shares in a manner different from the rights of other classes, including matters such as voting rights, dividends and preferences on liquidation. However, Inspiration Resources will agree in the Inspiration Resources Agency Agreement that it will take no action that will change the voting rights per share of the Inspiration Resources Common Shares or the Inspiration Resources Trust Shares without identically changing the voting rights per share of the Inspiration Resources Trust Shares or the Inspiration Resources Common Shares, respectively. There will be no agreement regarding changes in the voting rights per share or other changes in the terms of the Inspiration Resources Class A Shares. In contrast to Maryland law, the CBCA provides shareholders of a particular class of shares with the right to a separate class vote in connection with changes to the terms of such class or to the terms of any other class which would adversely affect the particular class in question, and in connection with certain other fundamental changes; however, the CBCA also provides that the articles of a corporation may limit the circumstances in which a separate class vote would be otherwise available.
2. The General Corporation Law of the State of Maryland permits a corporation to provide in its charter that the directors, without shareholder approval, may classify or reclassify authorized but unissued shares of any class of stock by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption of the shares. The charter of Inspiration Resources, as amended at the time of the Reorganization, will include a provision to this effect. For example, this provision would permit the Board of Directors of Inspiration Resources, without any shareholder approval, to reclassify unissued shares, including common shares, as a class of preferred shares with preferential rights over an existing class of shares with respect to voting rights, dividends and distributions on liquidation. See “INFORMATION CONCERNING INSPIRATION RESOURCES— Share Capital”. The CBCA does not permit a corporation to include a provision to this effect in its charter, although under the CBCA holders of common shares (and other shareholders, unless the articles provide to the contrary) may authorize the creation of a prior-ranking class of preference shares to be issued in series on such terms as to voting, dividends or other rights, as may be determined by the board of directors without further shareholder approval.

3. If the shares of a Maryland corporation are listed on a national securities exchange, such as the New York Stock Exchange, dissenting shareholders will not have appraisal rights, that is, rights to demand payment of the fair value of their shares. As discussed under “STOCK EXCHANGE LISTINGS”, Inspiration Resources intends to list the Inspiration Resources Common Shares on the New York Stock Exchange. Under the CBCA, whether or not a corporation is listed on a stock exchange, dissenting shareholders of corporations are entitled to appraisal rights in certain circumstances, including (i) an amendment to the terms of the class of shares owned by such shareholders, (ii) an amalgamation of the corporation with another corporation other than a wholly-owned subsidiary of the corporation, (iii) a continuance of the corporation under the laws of another jurisdiction, and (iv) the sale of all or substantially all of the assets of the corporation.
4. Only persons who have been shareholders of record for at least six months of an aggregate of at least 5% of the outstanding shares of a class of stock of a corporation incorporated under the General Corporation Law of the State of Maryland may request a list of shareholders. Under the CBCA, any shareholder may, upon payment of a reasonable fee, obtain a list of shareholders.
5. The percentage of voting shares which must be held in order to require a meeting of shareholders is greater under the General Corporation Law of the State of Maryland than in the case of the CBCA (25% as opposed to 5%).
6. Shareholders requesting a meeting of a corporation incorporated under the General Corporation Law of the State of Maryland must pay the estimated costs of preparing and mailing the notice of the meeting. Under the CBCA, shareholders are reimbursed by the corporation for the expenses of a meeting called by the shareholders, unless it is otherwise resolved at the shareholders’ meeting.

An amendment to the Maryland General Corporation Law has passed the Maryland General Assembly which upon signature by the Governor would become effective on July 1, 1983. This amendment provides that certain share issuances, capital reorganizations and other transactions with a holder of more than 10 percent of the voting shares of the corporation must be recommended by the board of directors and approved by the affirmative vote of at least (i) 80 percent of the votes entitled to be cast by the holders of outstanding voting shares of the corporation, and (ii) 66⅔ percent of the votes entitled to be cast by the holders of voting shares other than voting shares held by the interested shareholder or an affiliate thereof (with dissenting shareholders having appraisal rights), unless certain value and other standards are met or an exemption is available. This amendment contains an exemption from these provisions for corporations whose shareholders adopt a charter amendment after June 30, 1983 electing not to be governed by the amendment. Minorco and HBMS, as the only shareholders of Inspiration Resources prior to the Reorganization, intend to adopt a charter amendment to this effect on July 1, 1983, which provision will exempt Inspiration Resources from this requirement.

Equity Interests Before and After the Reorganization

Before the Reorganization

Before the Reorganization, the 10,231,044 issued and outstanding HBMS Common Shares are held 56.14% (5,743,504 HBMS Common Shares) by the HBMS Public Shareholders and 43.86% (4,487,540 HBMS Common Shares) are held indirectly by Minorco. Before the Reorganization, the Inspiration Resources Group is owned equally by HBMS and Minorco. Accordingly, the share ownership of the HBMS Public Shareholders represents a 28.07% interest in the Inspiration Resources Group while Minorco’s ownership in HBMS, together with its 50% interest in the Inspiration Resources Group, represents a 71.93% interest in the Inspiration Resources Group. The Independent Committee agreed with Minorco that, based upon the relative values of HBMS and the Inspiration Resources Group, the HBMS Public Shareholders would be entitled to a 36% interest in the combined assets of the Inspiration Resources Group and HBMS, while Minorco would be entitled to a 64% interest in such assets. The premiums given by Minorco and Mincan on the exchange and conversion of the HBMS Common Shares will increase the equity interest of HBMS Public Shareholders in Inspiration Resources to a range of approximately 39.6% to 41.4% and will decrease the equity interest of Minorco in Inspiration Resources to a range of approximately 58.6% to 60.4%, depending on the extent to which current HBMS Public Shareholders elect to exchange HBMS Common Shares for Inspiration Resources Common Shares rather than HBMS Special Shares.

After the Reorganization

The following table illustrates the respective ownership of Minorco and the HBMS Public Shareholders in HBMS Special Shares, Inspiration Resources Common Shares, Inspiration Resources Class A Shares and Inspiration Resources Trust Shares immediately after the Reorganization, assuming that all HBMS Public Shareholders elect to convert their HBMS Common Shares into HBMS Special Shares, that Mincan does not elect to take any HBMS Special Shares and that no HBMS Public Shareholders dissent and receive cash.

Ownership of Share Capital After the Reorganization (a)
(assuming all HBMS Public Shareholders convert to HBMS Special Shares)

	HBMS Public Shareholders	Minorco	Total
HBMS Special Shares	6,317,854	0	6,317,854
Inspiration Resources Common Shares (b)	0	4,991,882	4,991,882
Inspiration Resources Class A Shares (b)	0	4,644,442	4,644,442
Inspiration Resources Trust Shares (c)	6,317,854	0	6,317,854
Total Inspiration Resources Common, Class A and Trust Shares	6,317,854	9,636,324	15,954,178
Aggregate % equity interest in Inspiration Resources (d) ..	39.6	60.4	100.0
Aggregate % voting interest in Inspiration Resources	53.7	46.3	100.0

- (a) After the Reorganization, the outstanding HBMS Common Shares will be owned by Inspiration Resources.
- (b) Minorco's ownership of Inspiration Resources Common Shares and Inspiration Resources Class A Shares is determined in total by adding Minorco's 50% interest in Inspiration Resources (5,723,134 shares) and Mincan's 43.9% interest in HBMS (4,487,540 Common Shares) and then deducting premiums given to the HBMS Public Shareholders (in this example 574,350 shares representing a 10% premium on the conversion of all 5,743,504 HBMS Common Shares held by the HBMS Public Shareholders into 6,317,854 HBMS Special Shares). Minorco will elect to receive the same number of Inspiration Resources Class A Shares on the recapitalization of Inspiration Resources prior to the Reorganization regardless of the number of HBMS Public Shareholders who elect to receive Inspiration Resources Common Shares. Minorco's ownership of Inspiration Resources Common Shares is determined by the above calculation and election.
- (c) Holders of HBMS Special Shares are entitled to instruct the Trustee with respect to the voting of Inspiration Resources Trust Shares. See "THE REORGANIZATION—Description of HBMS Special Shares and Inspiration Resources Common Shares".
- (d) The 39.6% represents the 36% equity interest attributed to the HBMS Public Shareholders prior to the Reorganization adjusted to reflect the premium of 10% on such 36% interest.

The following table illustrates the respective ownership of Minorco and HBMS Public Shareholders in HBMS Special Shares, Inspiration Resources Common Shares, Inspiration Resources Class A Shares and Inspiration Resources Trust Shares immediately after the Reorganization, assuming that all HBMS Public Shareholders elect to exchange their HBMS Common Shares for Inspiration Resources Common Shares, that Mincan does not elect to take any HBMS Special Shares and that no HBMS Public Shareholders dissent and receive cash.

Ownership of Share Capital After the Reorganization (a)
(assuming all HBMS Public Shareholders exchange for Inspiration Resources Common Shares)

	HBMS Public Shareholders	Minorco	Total
HBMS Special Shares	0	0	0
Inspiration Resources Common Shares (b)	6,605,029	4,704,707	11,309,736
Inspiration Resources Class A Shares (b)	0	4,644,442	4,644,442
Inspiration Resources Trust Shares	0	0	0
Total Inspiration Resources Common, Class A and Trust Shares	6,605,029	9,349,149	15,954,178
Aggregate % equity interest in Inspiration Resources (c) ..	41.4	58.6	100.0
Aggregate % voting interest in Inspiration Resources	56.1	43.9	100.0

- (a) After the Reorganization, the outstanding HBMS Common Shares will be owned by Inspiration Resources.
- (b) Minorco's ownership of Inspiration Resources Common Shares and Inspiration Resources Class A Shares in total is determined as in the above table as is their election to receive Inspiration Resources Class A Shares. In this example, the deduction for premiums is 861,525 shares representing a 15% premium on the exchange of 5,743,504 HBMS Common Shares into 6,605,029 Inspiration Resources Common Shares. Minorco's ownership of Inspiration Resources Common Shares is determined by the calculation and election referred to in the above table.
- (c) The 41.4% represents the 36% equity interest attributed to the HBMS Public Shareholders prior to the Reorganization adjusted to reflect the premium of 15% on such 36% interest.

The tables set forth above illustrate the range of outcomes of ownership of HBMS Special Shares, Inspiration Resources Trust Shares and Inspiration Resources Common Shares, depending on the elections of HBMS Public Shareholders to receive HBMS Special Shares or Inspiration Resources Common Shares. See “HISTORICAL AND PRO FORMA CAPITALIZATION TABLE AND PRO FORMA FINANCIAL STATEMENTS” and note 6(d) to the Historical and Pro Forma Capitalization Table for the share ownership outcome, within the foregoing range, where 60% of the HBMS Common Shares held by the HBMS Public Shareholders are converted into HBMS Special Shares and 40% are exchanged for Inspiration Resources Common Shares. In addition, the share ownership outcomes will change if Mincan elects to convert certain of its HBMS Common Shares for HBMS Special Shares and if dissenting HBMS Shareholders receive cash for their HBMS Common Shares.

As shown in the tables set forth above, Minorco will receive 4,644,442 Inspiration Resources Class A Shares in the recapitalization of Inspiration Resources prior to the Arrangement in lieu of an identical number of Inspiration Resources Common Shares. As a result of the lesser voting rights attached to the Inspiration Resources Class A Shares, Minorco’s initial aggregate voting rights in Inspiration Resources after the Reorganization will be less than 50% of the total voting rights of the outstanding shares of Inspiration Resources. Depending upon the number of HBMS Public Shareholders who elect to take Inspiration Resources Common Shares in the Reorganization, the initial aggregate voting percentage of the Inspiration Resources Class A Shares and Inspiration Resources Common Shares held by Minorco will be between 43.9% and 46.3% of the total voting rights of the aggregate outstanding shares of Inspiration Resources. Inspiration Resources Class A Shares may be converted by Minorco at any time into Inspiration Resources Common Shares on a one for one basis. If Minorco were to fully exercise its conversion right with respect to the Inspiration Resources Class A Shares it will receive in the Reorganization, its aggregate voting rights in Inspiration Resources would increase to Minorco’s full equity interest of between 58.6% and 60.4%. However, Minorco has informed HBMS and Inspiration Resources that it does not currently intend to exercise these conversion rights, except to maintain a voting interest in Inspiration Resources of slightly less than 50%, and the numbers shown in the tables set forth above assume that Minorco has not converted any of its Inspiration Resources Class A Shares received in the Reorganization. Also see “INFORMATION CONCERNING INSPIRATION RESOURCES—Share Capital” for a description of the terms and conditions of the Inspiration Resources Common Shares, the Inspiration Resources Class A Shares and the Inspiration Resources Trust Shares to be issued in the Reorganization.

Transactions Related to the Reorganization

Future Financings

Inspiration Resources intends to raise additional capital through the sale of shares in 1983. It is intended that part of this additional capital will be raised through the issue of additional HBMS Special Shares and that a preliminary prospectus in connection with such offering will be filed in Canada during the summer of 1983, subject to market conditions. Minorco has agreed with Inspiration Resources and HBMS that, if the Reorganization takes place, Minorco will purchase from Inspiration Resources \$US80 million of share capital of Inspiration Resources in 1983, which will be provided from Minorco’s current cash resources and presently available loan facilities. Of this amount, \$US30 million will represent reinvestment in share capital of Minorco’s presently outstanding loan of \$US30 million to Inspiration Resources, which will be repaid by Inspiration Resources prior to the Effective Date. Minorco’s purchase of share capital of Inspiration Resources would be in proportion to Minorco’s indirect interest in Inspiration Resources after the Reorganization (approximately 60%) and would be contemporaneous with, and at prices equal to, those of public equity offerings completed by Inspiration Resources (or indirectly through public offerings of HBMS Special Shares). To the extent that such proportionate purchase by Minorco amounts to less than \$US80 million in 1983, Minorco will provide any balance up to the total of \$US80 million upon reasonable terms to be agreed between it and Inspiration Resources. Minorco has also agreed that, if the Reorganization does not take place, Minorco’s presently outstanding loan of \$US30 million to Inspiration Resources will be converted into share capital of Inspiration Resources prior to December 30, 1983.

Guarantee of Indebtedness of HBMS by Inspiration Resources

Inspiration Resources has agreed to guarantee on the Effective Date the payment obligations of HBMS under the Trust Indenture dated as of June 15, 1971 between HBMS and The Royal Trust Company relating to the 9% Debentures due on June 15, 1991 and under the Trust Indenture dated as of December 15, 1975 between HBMS and Morgan Guaranty Trust Company of New York relating to the 10½% Sinking Fund Debentures due December 15, 1995.

Minorco's Relationships with Inspiration Resources

In negotiations with the Independent Committee, Minorco agreed that, although it will have an equity interest in Inspiration Resources of approximately 60%, it intends that Inspiration Resources will have an independent management as do other corporations in which Minorco has significant investments. Minorco has indicated to HBMS that the principal working relationships between Minorco and Inspiration Resources will be through Minorco's representatives on the Inspiration Resources Board of Directors.

In this regard, it is the present intention of Minorco that its representatives on the Inspiration Resources Board of Directors will constitute a minority of the Board. As appears from the section entitled "INFORMATION CONCERNING INSPIRATION RESOURCES—Directors and Officers", it is expected that, as of the time of the Reorganization, the Board of Directors of Inspiration Resources will consist of three representatives of Minorco, namely, Messrs. Phillimore, Rely and Slack, four officers of Inspiration Resources, namely, Messrs. Davis, Doull (who is also a Mincan officer and director), Howkins and Richards (who is also a Minorco director and executive committee member), and five outside directors who are not connected with Minorco, namely, Messrs. Carson, Crawford, Jones, Lambert and Sweatman.

See "THE REORGANIZATION—Equity Interests Before and After the Reorganization" as to Minorco's present intention to restrict its voting interest in Inspiration Resources to slightly less than 50%.

Expenses of the Reorganization

The costs incurred by HBMS and Inspiration Resources relating to the Reorganization, including without limitation, financial, advisory, accounting, legal and auditing fees, the expense of fairness opinions and the preparation of this Circular, will be borne 40% by HBMS and 60% by Inspiration Resources. The total of such costs is expected to approximate \$Cdn 4.5 million.

Employee Stock Options

HBMS has granted options to employees to purchase HBMS Common Shares pursuant to the HBMS 1981 Share Option Plan. HBMS, Inspiration Resources and the individual employees of HBMS who will hold such options at the Effective Date have entered into agreements which provide that, subject to the Arrangement becoming effective, such individual employees shall convert such options, at their election, into options to purchase HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share under option or options to purchase Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share under option. The exercise price per share for such options to purchase HBMS Special Shares or Inspiration Resources Common Shares will be equal to the exercise price for the corresponding options to purchase HBMS Common Shares divided by 1.10 and 1.15, respectively. Otherwise, the options to purchase HBMS Special Shares and Inspiration Resources Common Shares will have the same terms and conditions as the current options to purchase HBMS Common Shares. If the Reorganization is completed, HBMS intends to amend the HBMS 1981 Share Option Plan to provide that all options granted pursuant to such Plan in the future will be options with respect to HBMS Special Shares. See "INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS—Management Remuneration".

Employee Savings Plan

An employee of HBMS who has made contributions to the HBMS Employee Savings Plan may elect, with respect to HBMS Common Shares purchased by the trustee under such plan with such employee's contributions and held on behalf of the employee, to convert or exchange such HBMS Common Shares either into HBMS Special Shares or for Inspiration Resources Common Shares at the same premiums offered to HBMS Public Shareholders pursuant to the Arrangement. An employee participant may make the same election with respect to HBMS Common Shares held on behalf of such participant which were purchased with matching contributions by HBMS and which have vested with respect to such participant. The Trustee will elect to convert all HBMS Common Shares purchased with matching contributions by HBMS, and which have not vested, into HBMS Special Shares, at the same premium offered to HBMS Public Shareholders who convert HBMS Common Shares into HBMS Special Shares. It is the present intention of HBMS to provide that share purchases following the Reorganization will be of HBMS Special Shares rather than HBMS Common Shares. See "INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS—Management Remuneration" for a description of the HBMS Employee Savings Plan.

Dissenting Shareholders' Appraisal Rights

The Interim Order provides HBMS Public Shareholders with the right to dissent from the Special Resolution pursuant to Section 184 of the CBCA. In the event the Arrangement becomes effective, any HBMS Public Shareholder who dissents from the Special Resolution in compliance with Section 184 of the CBCA (a "dissenting shareholder") will be entitled to be paid by HBMS the fair value of the HBMS Common Shares held by such shareholder. It is a condition to the completion of the Arrangement Agreement, which may be waived by HBMS, that rights of dissent from the Special Resolution approving the Arrangement Agreement shall not have been exercised in respect of more than 511,552 HBMS Common Shares (5% of the outstanding HBMS Common Shares on the Effective Date).

A dissenting shareholder of HBMS must send to HBMS, no later than the termination of the Meeting, a written objection to the Special Resolution (a "Dissent Notice"). The CBCA does not provide, and HBMS will not assume, that a vote against the Special Resolution constitutes a Dissent Notice. The CBCA provides, in effect, that a shareholder who has submitted a Dissent Notice and who votes in favour of the Special Resolution will no longer be considered a dissenting shareholder. Under the CBCA, there is no right of partial dissent and, accordingly, a dissenting shareholder may only claim with respect to all HBMS Common Shares held by him on behalf of any one beneficial owner and which are registered in the name of the dissenting shareholder. HBMS is required, within ten days after the HBMS Shareholders and the HBMS Public Shareholders adopt the Special Resolution, to notify each shareholder who has filed a Dissent Notice that the Special Resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the Special Resolution or who has withdrawn his Dissent Notice. A dissenting shareholder must then, within twenty days after he receives notice that the Special Resolution has been adopted, or, if he does not receive such notice, within twenty days after he learns that the Special Resolution has been adopted, send to HBMS a written notice (a "Payment Demand") containing his name and address, the number of HBMS Common Shares in respect of which he dissents, and a demand for payment of the fair value of such HBMS Common Shares. Within thirty days thereafter, the dissenting shareholder must send to HBMS or an HBMS transfer agent the certificates representing the HBMS Common Shares in respect of which he dissents. A dissenting shareholder who fails to send the certificates representing the HBMS Common Shares in respect of which he dissents, forfeits his rights to make a claim under Section 184 of the CBCA. HBMS or an HBMS transfer agent will endorse on share certificates received from a dissenting shareholder a notice that the holder is a dissenting shareholder and will forthwith return the share certificate to the dissenting shareholder.

On sending a Payment Demand to HBMS, a dissenting shareholder ceases to have any rights as an HBMS Shareholder, other than the right to be paid the fair value of his HBMS Common Shares as determined under Section 184 of the CBCA, except where:

- (a) the dissenting shareholder withdraws his Payment Demand before HBMS makes an offer to him pursuant to the Interim Order as hereinafter described;
- (b) HBMS fails to make an offer as hereinafter described, and the dissenting shareholder withdraws his Payment Demand; or
- (c) the Arrangement Agreement is terminated prior to becoming effective,

in which case his rights as an HBMS Shareholder are reinstated as of the date he sent the Payment Demand.

HBMS is required, not later than seven days after the later of the Effective Date or the date on which HBMS received the Payment Demand of a dissenting shareholder, to send to each dissenting shareholder who has sent a Payment Demand a written offer to pay for his HBMS Common Shares an amount considered by the Board of Directors of HBMS to be the fair value thereof, accompanied by a statement showing the manner in which the fair value was determined. HBMS must pay for the HBMS Common Shares of a dissenting shareholder within ten days after an offer made as aforesaid has been accepted by a dissenting shareholder, but any such offer lapses if HBMS does not receive an acceptance thereof within thirty days after the offer has been made. If HBMS fails to make an offer to pay for a dissenting shareholder's HBMS Common Shares, or if a dissenting shareholder fails to accept an offer which has been made, HBMS may, within fifty days after the Effective Date of the Arrangement or within such further period as a court may allow, apply to a court to fix a fair value for the HBMS Common Shares of dissenting shareholders. If HBMS fails to apply to a court, a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow. Any such

application must be made to a court having jurisdiction in the place where HBMS has its registered office or in the province where the dissenting shareholder resides if HBMS carries on business in that province. A dissenting shareholder is not required to give security for costs in such an application.

Upon an application to a court, all dissenting shareholders whose HBMS Common Shares have not been purchased by HBMS will be joined as parties and bound by the decision of the court, and HBMS will be required to notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel. Upon any such application to a court, the court may determine whether any person is a dissenting shareholder who should be joined as a party, and the court will then fix a fair value for the HBMS Common Shares of all dissenting shareholders. The final order of a court will be rendered against HBMS in favour of each dissenting shareholder and for the amount of the fair value of his HBMS Common Shares as fixed by the court. A court may, in its discretion, allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the Effective Date until the date of payment.

Dissenting shareholders of HBMS will not have any other right under the CBCA to have their HBMS Common Shares appraised and to receive the fair value thereof.

Foreign Investment Review Act

Under the Foreign Investment Review Act ("FIRA"), the acquisition of control of a Canadian business enterprise by a non-eligible person is subject to obtaining allowance by the Governor in Council upon demonstrating that the acquisition is or will be of significant benefit to Canada. HBMS is a Canadian business enterprise and both it and Inspiration Resources are non-eligible persons. However, since both HBMS and Inspiration Resources are, for the purposes of FIRA, controlled in fact by Minorco, the acquisition by Inspiration Resources of all the issued and outstanding voting shares of HBMS will not give rise to any change of control with respect to HBMS. As a result FIRA will not apply to the proposed transaction so as to require the obtaining of such allowance from the Governor in Council.

STOCK EXCHANGE LISTINGS

The HBMS Common Shares are listed on The Toronto Stock Exchange, the Montreal Exchange and the New York Stock Exchange. The Inspiration Resources Common Shares are not listed on any exchange at the date hereof. Applications have been made for the listing of the HBMS Special Shares on The Toronto Stock Exchange and the Inspiration Resources Common Shares on the New York Stock Exchange. Listing is subject to the formal approval by such exchanges and to the fulfillment of all the requirements of each exchange. In connection with the listing on the New York Stock Exchange, Inspiration Resources intends to file a registration statement under the United States Securities Exchange Act of 1934 (the "Securities Exchange Act") with respect to the Inspiration Resources Common Shares, which is required to be effective by the time of commencement of trading on the New York Stock Exchange. Registration of the Inspiration Resources Common Shares under the Securities Exchange Act will result in the applicability of the proxy, periodic reporting and other requirements of the Securities Exchange Act to Inspiration Resources. Subject to formal approvals and, with respect to the Inspiration Resources Common Shares, the effectiveness of the registration statement under the Securities Exchange Act, it is anticipated that trading in the HBMS Special Shares on The Toronto Stock Exchange and in the Inspiration Resources Common Shares on the New York Stock Exchange will commence on the Effective Date.

REGISTRATION AND QUALIFICATION FOR TRADING OF INSPIRATION RESOURCES COMMON SHARES AND HBMS SPECIAL SHARES

Inspiration Resources has agreed in the Arrangement Agreement to file a registration statement (the "Registration Statement") under the United States Securities Act of 1933 with the United States Securities and Exchange Commission relating to the Inspiration Resources Common Shares to be issued in exchange for the HBMS Special Shares following the Arrangement. It is expected that the Registration Statement will have become effective by the Effective Date of the Arrangement, which is the first date on which Inspiration Resources Common Shares may be issued in exchange for HBMS Special Shares. The effectiveness of the Registration Statement is a condition to the implementation of the Arrangement.

Subject to regulatory approval, on the Effective Date, the HBMS Special Shares and the Inspiration Resources Common Shares will be qualified to be traded in Canada in accordance with applicable Canadian securities legislation. Inspiration Resources has undertaken to become no later than 75 days after the Effective Date a reporting issuer in Ontario, as defined under the Securities Act (Ontario), which will result in the applicability of the proxy, periodic reporting and other requirements of the Securities Act (Ontario) to Inspiration Resources.

QUALIFICATION FOR INVESTMENT

HBMS Special Shares

In the opinion of counsel for HBMS, the HBMS Special Shares at the Effective Date will be eligible investments, without resort to the so-called “basket” provisions, but subject to general investment conditions or restrictions, for:

- (i) insurance companies registered under the Canadian and British Insurance Companies Act (Canada) and the Foreign Insurance Companies Act (Canada); and
- (ii) pension funds registered under the Pension Benefits Standards Act (Canada), the Pension Benefits Act (Ontario) and the Pension Benefits Act (Alberta).

The opinion of counsel for HBMS is that provided the HBMS Common Shares or HBMS Special Shares are listed for trading on the Toronto Stock Exchange on the Effective Date, the HBMS Special Shares at the Effective Date will be a “qualified investment” under the Tax Act for registered retirement savings plans, deferred profit sharing plans, registered home ownership savings plans, registered retirement income funds and registered investments.

Inspiration Resources Common Shares

In the opinion of counsel for HBMS, the Inspiration Resources Common Shares will be “foreign property” under the Tax Act for pension plans, registered retirement savings plans, deferred profit sharing plans, registered home ownership plans, registered retirement income funds, registered investments and certain other tax-exempt persons.

In the opinion of counsel for HBMS, if the Inspiration Resources Common Shares are listed for trading on the New York Stock Exchange on the Effective Date, the Inspiration Resources Common Shares will be a “qualified investment” under the Tax Act for registered retirement savings plans, deferred profit sharing plans, registered home ownership plans, registered retirement income funds and registered investments.

HISTORICAL AND PRO FORMA CAPITALIZATION TABLE AND PRO FORMA FINANCIAL STATEMENTS

Accounting Treatment of the Reorganization

The following unaudited historical and pro forma capitalization table and unaudited pro forma condensed statements of financial position as at December 31, 1982 and unaudited pro forma statements of earnings (loss) for each of the five years in the period ended December 31, 1982 give effect to the Reorganization based upon the assumptions set forth below and in the notes to such statements.

The essence of the Reorganization, negotiated by the Independent Committee and Minorco, is that the HBMS Public Shareholders, after giving effect to the exchange of all HBMS Special Shares for Inspiration Resources Common Shares, would be entitled to 36% of the equity in the reorganized Inspiration Resources plus premiums provided in the form of additional shares to be received by the HBMS Public Shareholders by reducing the number of shares to which Mincan and Minorco would otherwise be entitled. Because of these premiums, the equity ownership of the HBMS Public Shareholders in Inspiration Resources will be between 39.6% and 41.4%, depending on their elections under the Reorganization (as more fully explained in "THE REORGANIZATION—Equity Interests Before and After the Reorganization").

HBMS

HBMS Public Shareholders under the Arrangement will either:

- convert their HBMS Common Shares into HBMS Special Shares;
- exchange their HBMS Common Shares for Inspiration Resources Common Shares presently owned by HBMS, in which case HBMS will cancel the HBMS Common Shares received; or
- exchange their HBMS Common Shares for authorized but unissued Inspiration Resources Common Shares.

A basic pro forma assumption is that 60% of the shares owned by HBMS Public Shareholders will be converted into HBMS Special Shares.

Inspiration Resources will buy back from HBMS any Inspiration Resources Common Shares held by HBMS after the Reorganization. As a result of these transactions, Inspiration Resources will own 100% of the HBMS Common Shares, and the shareholders' equity of HBMS will be adjusted to reflect the elimination of its ownership in Inspiration Resources.

The HBMS consolidated financial statements in this pro forma section are stated in United States dollars, follow United States generally accepted accounting principles, and are based upon the historical, audited, Canadian dollar consolidated financial statements of HBMS appearing elsewhere in this Circular. They should be read in conjunction with those financial statements and the related notes. The translation of Canadian dollars to United States dollars follows Financial Accounting Standards Board (FASB) Statement No. 52. The adoption of United States generally accepted accounting principles requires the capitalizing of interest under FASB No. 34 and the replacement of the historical rate method of translation of foreign currencies with FASB No. 52 as set out in detail in Note 17 to the HBMS historical, audited Canadian dollar consolidated financial statements.

Inspiration Resources

The Reorganization will be accounted for by Inspiration Resources as a pooling of interests.

During the five-year period ended December 31, 1982, HBMS, Minorco and Inspiration Resources entered into certain agreements to rearrange their collective interests in Inspiration Copper, Terra and Trend. The pro forma Inspiration Resources consolidated financial statements have been prepared using the original historic cost of each of these operations to HBMS and Inspiration Resources Group. The pro forma adjustments replace 50% of the carrying values of certain Inspiration Resources Group combined assets and shareholders' accounts with the HBMS carrying values of such assets and shareholders' accounts.

The pro forma information relating to the Inspiration Resources Group is based on audited information appearing elsewhere in this Circular. It includes Trend, which will become a subsidiary of Inspiration Resources as part of the Reorganization.

HISTORICAL AND PRO FORMA CAPITALIZATION TABLE

(pro forma giving effect to the Reorganization)
(\$US in thousands, except for numbers of shares)
(unaudited)

	Inspiration Resources				
	HBMS Consolidated December 31, 1982	Inspiration Resources Group Combined December 31, 1982	Adjustments	Pro forma Inspiration Resources Consolidated April 15, 1983 [1(a)]	Pro forma HBMS as a subsidiary of Inspiration Resources April 15, 1983 [1(b)]
Long-term debt: [2(a)]					
HBMS:					
9% unsecured debentures due 1991 [2(b)]	\$16,171	\$	\$ (497)*	\$15,674	\$15,674
10½% unsecured debentures due 1995 [2(b)]	43,214		(10)*	43,204	43,204
Revolving credit facilities	24,402		{ 30,000* [6(a)] (4,171)* (30,000) [6(b)(i)]	20,231	20,231
Mortgage loans	181		(32)*	149	149
INSPIRATION RESOURCES:					
9% notes, net of unamortized premium		122,615	(122,615)*	—	
Revolving credit and term loan facilities [2(b)]			{ 60,649* 60,000 [6(b)(i)] (80,000) [6(b)(iii)]	40,649	
INSPIRATION COAL:					
Revolving credit and term loan facility		62,000	13,000*	75,000	
Notes		259	(86)*	173	
INSPIRATION COPPER:					
Industrial Development Authority		10,786	765*	11,551	
Industrial Development Authority		4,400	(900)*	3,500	
Revolving credit facility [2(b)]		69,926	20,000*	89,926	
Other		2,897	(369)*	2,528	
TERRA:					
9% unsecured notes		14,500	—	14,500	
8% unsecured notes		15,000	—	15,000	
Industrial Revenue Bonds		5,591	1,532*	7,123	
Other		2,146	447*	2,593	
TREND:					
Revolving credit facility [2(b)]		64,494	1,000*	65,494	
Included in current liabilities	83,968	374,614	(51,287) (133)** 60,000 [6(b)(ii)]	407,295	79,258
	(3,607)	(66,977)		(10,717)	(3,205)
	80,361	307,637	8,580	396,578	76,053
Minority interest [1 (c) and 3]	—	6,439	—	6,439	—

*Adjustments giving effect to borrowings (repayments) and currency translation adjustments during the period January 1, 1983 through April 15, 1983.

**Adjustment giving effect to net changes in current portion of long-term debt.

...continued

continued...

HISTORICAL AND PRO FORMA CAPITALIZATION TABLE

(pro forma giving effect to the Reorganization)
(\$US in thousands, except for numbers of shares)
(unaudited)

	Inspiration Resources				
	HBMS Consolidated December 31, 1982	Inspiration Resources Group Combined December 31, 1982	Adjustments	Pro forma Inspiration Resources Consolidated April 15, 1983 [1(a)]	Pro forma HBMS as a subsidiary of Inspiration Resources April 15, 1983 [1(b)]
Shareholders' equity:					
HBMS:					
Special Shares (non-voting)— without par value Authorized: unlimited Issued:—	—		22,464 [6(d) (iv)] 3,790,712 shares		22,464 3,790,712 shares
Common Shares (voting)— without par value Authorized: unlimited Issued:—	66,694 10,231,044 shares		(60,789) [6(d) (iv)] (9,325,342 shares)		5,905 905,702 shares
INSPIRATION RESOURCES:					
Shareholders' contributions [4]		415,800	(415,800) [6(c)]	—	
Trust Shares (one vote per share)— \$0.0001 par value Authorized: 16,500,000 shares Issued:—		—	— [6(d)(viii)] 3,790,712 shares	— 3,790,712 shares	
Class A Shares (one-tenth of a vote per share)— without par value Authorized: 10,000,000 shares Issued:—		—	163,319 [6(d) (viii)] 4,389,175 shares	172,817 4,644,442 shares	
Common Shares (one vote per share)— without par value Authorized: 50,000,000 shares Issued:—		—	111,275 [6(d)(viii)] 7,774,291 shares 80,000 [6(b)(iii)]	101,777 7,519,024 shares 80,000	
Committed capital.					
Valuation allowance [1(c) and 5]		(38,917)	19,202 [7]	(19,715)	
Currency translation adjustments [1(c)]	(28,444)	—	5,793 [8]	(22,651)	(22,651)
Retained earnings (deficit) [1(c)]	213,254	(96,887)	48,444 [(9) (a)] (75,044) [(9)(b)]	164,811	138,210
Total shareholders' equity	251,504 10,231,044 shares	279,996		477,039 15,954,178 shares	143,928 4,696,414 shares
Total	\$ 331,865	\$ 594,072		\$ 880,056 [1(d)]	\$ 219,981

Notes to the Historical and Pro Forma Capitalization Table

1. (a) Pro forma Inspiration Resources Consolidated Capitalization April 15, 1983 consists of:
 - Inspiration Resources Group as at December 31, 1982; plus
 - HBMS as at December 31, 1982; plus
 - all adjustments hereunder except the adjustments to HBMS consolidated stated capital and retained earnings.
- (b) Pro forma HBMS as a subsidiary of Inspiration Resources April 15, 1983 consists of:
 - HBMS as at December 31, 1982; plus
 - those adjustments specifically affecting HBMS which are so indicated hereunder.
- (c) All December 31, 1982 historical data is updated to April 15, 1983 except for minority interest, valuation allowance, currency translation adjustments and retained earnings (deficit) which remain as at December 31, 1982.
- (d) The total number of shares of all classes of Inspiration Resources outstanding after the Reorganization, assuming no dissent by HBMS Public Shareholders, is 15,954,178. This is the number of shares necessary to provide the HBMS Public Shareholders, which held 5,743,504 HBMS Common Shares, with 36% of the issued share capital of Inspiration Resources (after providing for full exchange of HBMS Special Shares for Inspiration Resources Common Shares subsequent to the Reorganization) before provision of the premiums to be borne by Mincan and Minorco. This number of shares does not include any shares to be issued to Minorco with respect to its purchase of \$US80,000,000 of Inspiration Resources' share capital as referred to in Note 6(b)(iii) below.
2. (a) Detailed descriptions of long-term debt as at December 31, 1982, are included in Notes 8 and 9 to the HBMS consolidated financial statements and in Notes 8 and 9 to the Inspiration Resources Group combined financial statements. These financial statements are both included elsewhere in this Circular.
- (b) Since December 31, 1982 or as a part of the Reorganization, the following changes occur: as a condition of the Arrangement, Inspiration Resources has agreed to guarantee the payment obligations of HBMS under the 9% unsecured debentures' trust indenture and the 10½% unsecured debentures' trust indenture; HBMS' guarantee of half of Inspiration Resources existing revolving credit and term loan facility will fall away on the Effective Date of the Reorganization; HBMS revolving credit facilities will be available to either or both of HBMS or Inspiration Resources as borrowers; Inspiration Resources has entered into an interest rate exchange which fixes interest rates on \$US25,000,000 of its floating rate debt at 12.51% for five years; and voting covenants in the Inspiration Copper revolving credit facility will be amended; ownership covenants in the Trend revolving credit facility will be amended.
3. Minority interest is comprised of \$US5,884,000 of Inspiration Resources subsidiaries' preferred stock held by third parties and \$US555,000 of Trend subsidiaries' common stock held by third parties. A subsidiary (Terra) is required to redeem \$US510,000 of its preferred stock each year until it has all been redeemed.
4. Shareholders' contributions to the Inspiration Resources Group were determined by combining the capital structures of the companies in the group. A detailed description of the combination of the capital structures is included in Note 13 to the Inspiration Resources Group combined financial statements which are included elsewhere in this Circular.
5. In August 1981, Francana Oil & Gas Ltd. ("Francana"), which was then a subsidiary of HBMS, acquired a 27% interest in Adobe Oil & Gas Corporation ("Adobe") for \$US140,673,000. As part of the restructuring of HBMS' investments in oil and gas (see Note 3(a) to the HBMS consolidated financial statements and Note 3(a) to the Inspiration Resources Group combined financial statements, both of which are included elsewhere in this Circular), Trend acquired Francana's 27% interest in Adobe for \$US105,241,000 in May 1982. This investment is accounted for by the cost method because Trend does not exercise a significant influence over Adobe. Temporary declines in market value are recognized by charging the valuation allowance account, a separate component of shareholders' equity.
6. Pro forma adjustments to the Inspiration Resources Group and HBMS December 31, 1982 capitalization table are as follows:
 - (a) On January 17, 1983, HBMS borrowed \$US30,000,000 by drawing on the HBMS revolving credit facility to advance to Inspiration Resources. As part of the Reorganization this amount is to be repaid to HBMS by Inspiration Resources and then repaid by HBMS to its lenders under the HBMS revolving credit facility.
 - (b) (i) On January 17, 1983, Inspiration Resources Group borrowed \$US30,000,000 from each of its principal shareholders. The \$US60,000,000 shareholder advances are to be repaid as part of the Reorganization by drawing on revolving term credit facilities.

- (ii) Inspiration Resources had classified \$US60,000,000 of its 9% notes as current portion of long-term debt as at December 31, 1982. This portion of the notes was repaid out of the borrowings from shareholders referred to in Note 6(b)(i). When the shareholders are repaid by Inspiration Resources drawing on its revolving term credit facilities, the \$US60,000,000 ceases to be part of the current portion of long-term debt.
- (iii) Minorco has agreed that if the Reorganization takes place, Minorco will purchase from Inspiration Resources \$US80,000,000 of the share capital of Inspiration Resources in 1983, \$US30,000,000 of which represents reinvestment of its January 17, 1983 loan to Inspiration Resources. Such purchases would be in proportion to Minorco's interest in Inspiration Resources after the Reorganization and be contemporaneous with, and at prices equal to, those of public equity offerings completed by Inspiration Resources (or indirectly through public offerings of HBMS Special Shares). To the extent that such purchases by Minorco amount to less than \$US80,000,000 in 1983, Minorco will provide any balance up to the total of \$US80,000,000 upon terms to be agreed between it and Inspiration Resources. This commitment by Minorco is included in the pro forma capitalization table in Inspiration Resources shareholders' equity as "committed capital". The funds have been applied to reduce the balance owing on the Inspiration Resources revolving credit and term loan facilities.
- (c) As part of the Reorganization, Ladycliff N.V. ceases to be part of the Inspiration Resources Group, and Trend becomes a subsidiary of Inspiration Resources. Inspiration Resources is recapitalized as noted hereunder, and the shareholders' contributions to the Inspiration Resources Group are restructured accordingly.
- (d) As noted elsewhere in this Circular, HBMS Public Shareholders are entitled to elect from a variety of options. The final capital structure depends on these elections. For the purposes of this pro forma information, it has been assumed that holders of 60% of the outstanding publicly held HBMS Common Shares, other than shares held by Mincan, elect to receive HBMS Special Shares and that 40% of the outstanding HBMS Common Shares held by the public, other than shares held by Mincan, including all HBMS Non-Canadian Public Shareholders (who are assumed to hold 905,602 HBMS Common Shares) elect to receive Inspiration Resources Common Shares. It has also been assumed that Mincan elects to receive only Inspiration Resources Common Shares from HBMS and that there is no dissent. Fractional shares have not been considered. On the basis of these assumptions:
 - i) 3,446,102 HBMS Common Shares (60% of the 5,743,504 HBMS Common Shares held by HBMS Public Shareholders) will be converted, on a 1 for 1.10 basis, into 3,790,712 HBMS Special Shares to be held by HBMS Public Shareholders. Inspiration Resources will issue 3,790,712 Inspiration Resources Trust Shares.
 - ii) HBMS will distribute 3,934,060 Inspiration Resources Common Shares to Mincan in exchange for 4,487,440 of Mincan's 4,487,540 HBMS Common Shares thus causing Mincan to absorb the premiums paid at (i) above and (iii) below.
 - iii) 1,391,800 HBMS Common Shares will be exchanged, with HBMS, on a 1 for 1.15 basis, for 1,600,570 Inspiration Resources Common Shares to be held by HBMS Public Shareholders which will reduce the HBMS holding (after (ii) above) of Inspiration Resources Common Shares from 5,723,134 Inspiration Resources Common Shares to 188,504 Inspiration Resources Common Shares. Unexchanged Inspiration Resources Common Shares remaining in the hands of HBMS will be sold to Inspiration Resources at a price assumed to be \$US15 per share for illustrative purposes only.
 - iv) As a result of steps 6(d)(i), 6(d)(ii) and 6(d)(iii), the number of issued HBMS Special Shares and HBMS Common Shares is determined. The stated capital of HBMS Special Shares is equal to the stated capital of the HBMS Common Shares converted into HBMS Special Shares. The stated capital of the HBMS Common Shares after the Reorganization is equal to the stated capital of HBMS Common Shares before the Reorganization reduced by the stated capital of the HBMS Common Shares converted into HBMS Special Shares and the stated capital of HBMS Common Shares exchanged with HBMS for Inspiration Resources Common Shares.
 - v) 905,602 HBMS Common Shares (which are assumed to be held by HBMS Non-Canadian Shareholders and which represent 40% of the 5,743,504 HBMS Common Shares held by HBMS Public Shareholders less the portion thereof exchanged with HBMS at (iii) above) will be exchanged, on a 1 for 1.15 basis, for 1,041,442 previously unissued Inspiration Resources Common Shares to be held by HBMS Public Shareholders.

- vi) Inspiration Resources will issue 100 previously unissued Inspiration Resources Common Shares to Mincan in exchange for 100 HBMS Common Shares.
- vii) Minorco will receive 4,644,442 Inspiration Resources Class A Shares and 942,852 Inspiration Resources Common Shares on Reorganization, representing, in total, 50% of Inspiration Resources outstanding share capital before the Arrangement, and will contribute 135,840 Inspiration Resources Common Shares to Inspiration Resources to absorb the premium paid at (v) above.
- viii) As a result of steps 6(d)(i) through 6(d)(vii), except 6(d)(iv), the number of issued Inspiration Resources Trust Shares, Inspiration Resources Class A Shares and Inspiration Resources Common Shares is determined. The stated capital of Inspiration Resources issued shares of all classes, in total, is determined as \$US274,594,000 by the pooling of HBMS stated capital and 50% of Inspiration Resources Group stated capital. The stated capital of Inspiration Resources Trust Shares is their par value. The stated capital of Inspiration Resources Class A Shares is determined by splitting, pro rata, the stated capital of Minorco's investment in Inspiration Resources [see 6(d)(vii) above] before pooling HBMS share capital. The stated capital of Inspiration Resources Common Shares is the total Inspiration Resources stated capital reduced by the stated capital of Inspiration Resources Trust Shares and the stated capital of Inspiration Resources Class A Shares. Because of the low stated capital of each Inspiration Resources Trust Share, on rounding to the nearest thousand dollars, the pro forma stated capital of the issued shares of this class becomes zero. The number of issued shares of each class of Inspiration Resources share capital and the stated capital as referred to herein does not include \$US80 million of committed capital.

If **less than 60%** of the shares held by the HBMS Public Shareholders are converted into HBMS Special Shares, in most circumstances there will be the following impact in relation to the pro forma capitalization table presented:

for each HBMS Common Share less than 3,446,102 [6(d)(i)] which is converted into HBMS Special Shares, there will be 1.10 fewer HBMS Special Shares issued, 1.10 fewer Inspiration Resources Trust Shares issued and 1.15 more Inspiration Resources Common Shares issued to the HBMS Public Shareholders. The total stated capital of HBMS Common Shares will initially remain constant until all Inspiration Resources Common Shares held by HBMS are distributed and thereafter will increase and the total stated capital of HBMS Special Shares will decrease. The total stated capital of Inspiration Resources Common Shares will remain unchanged except for \$US0.0001 per share less allocated to Inspiration Resources Trust Shares. The premiums absorbed by Mincan and Minorco will both change, and the total premium will increase. If no HBMS Special Shares are issued, the HBMS Public Shareholders would receive 6,605,029 Inspiration Resources Common Shares.

If **more than 60%** of the shares held by the HBMS Public Shareholders are converted into HBMS Special Shares, in most circumstances there will be the following impact in relation to the pro forma capitalization table presented:

for each HBMS Common Share more than 3,446,102 which is converted into HBMS Special Shares, there will be 1.10 more HBMS Special Shares issued, 1.10 more Inspiration Resources Trust Shares issued and 1.15 fewer Inspiration Resources Common Shares issued to HBMS Public Shareholders. The total stated capital of HBMS Common Shares will initially remain constant and the total stated capital of HBMS Special Shares will increase. The total stated capital of Inspiration Resources Common Shares will remain unchanged except for \$US0.0001 per share more allocated to Inspiration Resources Trust Shares. The premiums absorbed by Mincan and Minorco will both change and the total premium will decrease. HBMS Non-Canadian Public Shareholders are assumed to hold 905,602 HBMS Common Shares, and will receive their Inspiration Resources Common Shares from Inspiration Resources. This will require Inspiration Resources to buy back more of Inspiration Resources Common Shares from HBMS. If 6,317,854 HBMS Special Shares are issued, HBMS Public Shareholders will hold no Inspiration Resources Common Shares. This could leave 1,810,044 Inspiration Resources Common Shares owned by HBMS prior to their buy back by Inspiration Resources.

The Arrangement permits Mincan, in circumstances where the trading value of HBMS Common Shares owned by Mincan on the day immediately preceding the Effective Date exceeds \$Cdn20.80 per share, to elect to receive a combination of HBMS Special Shares and Inspiration Resources Common Shares. This would have in most circumstances the following impact in relation to the pro forma capitalization table presented:

for each HBMS Special Share issued to Mincan, there will be one more HBMS Special Share issued, one more Inspiration Resources Trust Share issued and one more Inspiration Resources Common Share held by HBMS available for either exchange to HBMS Public Shareholders for HBMS Common Shares or for buy back from HBMS by Inspiration Resources. The total stated capital of HBMS Special Shares will increase, the total stated capital of HBMS Common Shares will remain unchanged and the total stated capital of Inspiration Resources Common Shares will remain unchanged except for \$US0.0001 per share allocated to Inspiration Resources Trust Shares. The premiums absorbed by Mincan and Minorco may each change but the total premium will remain unchanged. Some HBMS Public Shareholders who might otherwise have received Inspiration Resources Common Shares from Inspiration Resources may do so from HBMS.

7. Pooling of interests accounting, which forms the basis of Inspiration Resources' accounting for the Reorganization, affects the carrying value of the Inspiration Resources' investment in Adobe. The investment in Adobe by Inspiration Resources Group is reduced from \$US105,241,000 to \$US86,039,000 to reflect the lower assigned cost of Trend in HBMS resulting from the May 1982 restructuring. See Note 5 above.

The \$US19,202,000 reduction in the carrying value of Adobe due to the Reorganization also results in an offsetting reduction in the Adobe valuation allowance, i.e. the net carrying value after valuation allowance is unchanged. The April 15, 1983 market value for the shares of Adobe would have resulted in a further decrease of \$US8,700,000 in the valuation allowance.

8. Pooling of interests of HBMS and Inspiration Resources Group results in the net reduction of currency translation adjustments relating to capital accounts and intercompany investments.
9. (a) The pro forma retained earnings of Inspiration Resources Consolidated consists of HBMS retained earnings plus one-half of the Inspiration Resources Group deficit. The pro forma adjustment is the elimination of half of the Inspiration Resources Group deficit in the pro forma Inspiration Resources retained earnings.
- (b) The Reorganization eliminates from HBMS the HBMS investment in Inspiration Resources of \$US110,404,000, after this investment is adjusted to \$US116,197,000 to reflect currency translation adjustments. Part of this elimination is offset by the extent to which HBMS Common Shares are exchanged with HBMS for Inspiration Resources Common Shares, which reduces HBMS stated capital. Given the assumed elections by HBMS Public Shareholders, this reduction in stated capital would be \$US38,325,000. Also, part of this elimination is offset by the proceeds of sale of residual Inspiration Resources Common Shares held by HBMS to Inspiration Resources. Using the value of the Inspiration Resources Common Shares assumed to be \$US15 per share for illustrative purposes only, the proceeds of sale, given the assumed elections by HBMS Shareholders, would be \$US2,828,000. This results in a \$US75,044,000 reorganization adjustment to retained earnings.

PRO FORMA FINANCIAL STATEMENTS
(giving effect to the Reorganization)

Pro Forma Condensed Statements of Financial Position
as at December 31, 1982
(\$US in thousands)
(unaudited)

	HBMS			Inspiration Resources Group Combined	Pro forma Adjustments	Pro forma Inspiration Resources Consolidated
	Consolidated	Pro forma Adjustments	Pro forma as a subsidiary			
Current assets	\$ 84,226	\$ 2,828 (a)	\$ 87,054	\$215,333	\$ (2,828) (a)	\$296,781
Current liabilities	58,505	—	58,505	177,599	(2,778) (d)	233,326
Working capital	25,721	2,828	28,549	37,734	(2,828)	63,455
Investments in associated companies	114,930	(110,404) (b)	4,526	—	—	4,526
Other investments	12,930	—	12,930	79,713	— (h)	92,643
Property, plant and equipment ..	211,424	—	211,424	471,404	(24,057) (e)	658,771
Other assets	12,181	—	12,181	21,649	—	33,830
Capital employed	377,186	(107,576)	269,610	610,500	(26,885)	853,225
Deduct:						
Long-term debt	80,361	—	80,361	307,637	(80,000) (f)	307,998
Deferred taxes	45,321	—	45,321	6,275	—	51,596
Other liabilities	—	—	—	10,153	—	10,153
Minority interest	—	—	—	6,439	—	6,439
Shareholders' investment	<u>\$251,504</u>	<u>\$(107,576)</u>	<u>\$143,928</u>	<u>\$279,996</u>	<u>\$ 53,115</u>	<u>\$477,039</u>
Investment represented by:						
Share capital	\$ 66,694	\$ (38,325)	\$ 28,369	\$415,800	\$ 80,000 (f)	\$354,594
Valuation allowance	—	—	—	(38,917)	(169,575) (g)	(19,715)
Currency translation adjustments	(28,444)	5,793 (c)	(22,651)	—	19,202 (h)	(22,651)
Retained earnings (deficit)	213,254	(75,044) (a)(b)	138,210	(96,887)	123,488 (i)	164,811
	<u>\$251,504</u>	<u>\$(107,576)</u>	<u>\$143,928</u>	<u>\$279,996</u>	<u>\$ 53,115</u>	<u>\$477,039</u>

These condensed pro forma statements of financial position should be read in conjunction with the "Accounting Treatment of the Reorganization"; "Historical and Pro Forma Capitalization Table", including the notes thereto; "Pro Forma Statements of Earnings (Loss)"; and "Notes to the Unaudited Pro Forma Financial Statements" specifically referenced herein.

For information on the five operating segments, reference should be made to Supplementary Information for Hudson Bay Mining Consolidated and Inspiration Resources Group on page 120.

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Pro Forma Statements of Earnings (Loss)

For the year ended December 31, 1982

(\$US in thousands, except per share amounts)
(unaudited)

	HBMS			Inspiration Resources Group Combined*	Pro forma Adjustments	Pro forma Inspiration Resources Consolidated
	Consolidated	Pro forma Adjustments	Pro forma as a subsidiary			
Revenues:						
Net sales	\$202,570	\$ —	\$202,570	\$555,817	\$(2,497) (d)	\$755,890
Interest and other income	3,302	—	3,302	20,550	—	23,852
	<u>205,872</u>	<u>—</u>	<u>205,872</u>	<u>576,367</u>	<u>(2,497)</u>	<u>779,742</u>
Costs and expenses:						
Cost of sales	206,327	—	206,327	500,115	(2,497) (d)	703,945
Depreciation, depletion and amortization	19,673	—	19,673	47,837	(1,541) (j)	65,969
Exploration expenses	4,865	—	4,865	2,810	—	7,675
General administrative expenses	8,806	—	8,806	20,983	—	29,789
Interest	6,674	—	6,674	42,649	—	49,323
	<u>246,345</u>	<u>—</u>	<u>246,345</u>	<u>614,394</u>	<u>(4,038)</u>	<u>856,701</u>
Loss before the undernoted items .	(40,473)	—	(40,473)	(38,027)	1,541	(76,959)
Benefit of (provision for) income taxes, mining taxes and royalties	13,781	—	13,781	(4,433)	—	9,348
	<u>(26,692)</u>	<u>—</u>	<u>(26,692)</u>	<u>(42,460)</u>	<u>1,541</u>	<u>(67,611)</u>
Pro forma minority interests	—	—	—	(694)	—	(694)
Loss from operations	(26,692)	—	(26,692)	(43,154)	1,541	(68,305)
Share of losses of associated companies	(23,565)	19,951 (k)	(3,614)	—	—	(3,614)
Dividends paid to minority interests	—	—	—	(423)	—	(423)
Loss before extraordinary item ...	(50,257)	19,951	(30,306)	(43,577)	1,541	(72,342)
Extraordinary item:						
Gain on sale of power plant	44,979	—	44,979	—	—	44,979
Net earnings (loss) for the year ...	<u>\$ (5,278)</u>	<u>\$19,951</u>	<u>\$ 14,673</u>	<u>\$ (43,577)</u>	<u>\$ 1,541</u>	<u>\$(27,363)</u>
Earnings (loss) per share:						
Before extraordinary item	\$ (4.91)					\$ (4.53)
After extraordinary item	<u>\$ (0.52)</u>					<u>\$ (1.72)</u>

*Inspiration Resources Group Combined includes the results of Trend on a pro forma basis for the first five months of 1982.

These pro forma statements of earnings (loss) should be read in conjunction with the "Accounting Treatment of the Reorganization"; "Historical and Pro Forma Capitalization Table", including the notes thereto; "Pro Forma Condensed Statements of Financial Position"; and "Notes to the Unaudited Pro Forma Financial Statements" specifically referenced herein.

continued...

Pro Forma Statements of Earnings (Loss)

For the year ended December 31,

(\$US in thousands, except per share amounts)

(unaudited)

	HBMS as a subsidiary				Inspiration Resources Consolidated			
	1981	1980	1979	1978	1981	1980	1979	1978
Revenues:								
Net sales	\$243,276	\$264,036	\$231,771	\$162,191	\$835,804	\$758,691	\$620,713	\$471,558
Interest and other income	18,330	19,500	7,297	6,041	54,723	51,444	20,658	15,204
	<u>261,606</u>	<u>283,536</u>	<u>239,068</u>	<u>168,232</u>	<u>890,527</u>	<u>810,135</u>	<u>641,371</u>	<u>486,762</u>
Costs and expenses:								
Cost of sales	228,649	212,419	181,804	143,962	743,754	617,179	498,133	410,111
Depreciation, depletion and amortization	23,008	20,302	17,771	14,665	63,013	58,047	42,249	37,177
Exploration expenses	3,224	8,299	3,633	2,905	11,166	19,074	10,303	6,324
General administrative expenses	8,130	7,254	6,124	6,139	28,237	17,527	14,292	13,644
Interest	3,918	6,277	7,138	7,169	29,319	19,088	15,314	12,984
	<u>266,929</u>	<u>254,551</u>	<u>216,470</u>	<u>174,840</u>	<u>875,489</u>	<u>730,915</u>	<u>580,291</u>	<u>480,240</u>
Earnings (loss) before the undernoted items	(5,323)	28,985	22,598	(6,608)	15,038	79,220	61,080	6,522
Benefit of (provision for) income taxes, mining taxes and royalties	1,756	(7,703)	(8,142)	2,151	(27,175)	(48,193)	(28,315)	(8,181)
	<u>(3,567)</u>	<u>21,282</u>	<u>14,456</u>	<u>(4,457)</u>	<u>(12,137)</u>	<u>31,027</u>	<u>32,765</u>	<u>(1,659)</u>
Pro forma minority interests	—	—	—	—	(5,128)	(7,218)	(2,695)	1,740
Earnings (loss) from operations	(3,567)	21,282	14,456	(4,457)	(17,265)	23,809	30,070	81
Share of earnings of associated companies	4,460	11,777	4,187	2,888	4,460	11,777	4,187	2,888
Dividends paid to minority interests	—	—	—	—	(247)	(68)	(983)	—
Gain on sale of investment	—	16,681	—	—	—	16,681	—	—
Earnings (loss) before extraordinary items	893	49,740	18,643	(1,569)	(13,052)	52,199	33,274	2,969
Extraordinary item:								
Application of tax losses carried forward	—	1,854	2,749	—	—	1,854	4,484	—
Net earnings (loss) for the year	<u>\$ 893</u>	<u>\$ 51,594</u>	<u>\$ 21,392</u>	<u>\$ (1,569)</u>	<u>\$ (13,052)</u>	<u>\$ 54,053</u>	<u>\$ 37,758</u>	<u>\$ 2,969</u>
Earnings (loss) per share:								
Before extraordinary item					\$ (0.82)	\$ 3.27	\$ 2.09	\$ 0.19
After extraordinary item					<u>\$ (0.82)</u>	<u>\$ 3.39</u>	<u>\$ 2.37</u>	<u>\$ 0.19</u>

These pro forma statements of earnings (loss) should be read in conjunction with the “Accounting Treatment of the Reorganization”; “Historical and Pro Forma Capitalization Table”, including the notes thereto; “Pro Forma Condensed Statements of Financial Position”; and “Notes to the Unaudited Pro Forma Financial Statements”.

Notes to the Pro Forma Financial Statements (unaudited)

The pro forma adjustments to the capitalization of HBMS and Inspiration Resources are explained in detail in the “Notes to the Historical and Pro Forma Capitalization Table”. The following notes much more briefly summarize the pro forma adjustments to the “Pro Forma Financial Statements”. Further reference should be made to the “Notes to the Historical and Pro Forma Capitalization Table”.

- a. Adjustment to reflect the sale of 188,504 Inspiration Resources Common Shares by HBMS to Inspiration Resources at a price assumed to be \$US15 per share for illustrative purposes only.
- b. Adjustment to reflect the reduction of the HBMS investment in Inspiration Resources by exchange of Inspiration Resources Common Shares held by HBMS for HBMS Common Shares and the sale of the Inspiration Resources Common Shares referred to in (a) above.
- c. The pooling of interests of HBMS and Inspiration Resources Group results in the reduction of currency translation adjustments relating to capital accounts and intercompany investments.
- d. Adjustments to eliminate intercompany transactions.

The following adjustments, (e) through (k), give effect to the pooling of interests of HBMS and Inspiration Resources Group into Inspiration Resources.

- e. Replacement of 50% of Inspiration Resources Group cost in excess of the book value of its subsidiaries with the corresponding HBMS historical carrying values.
- f. Provided the Reorganization is completed, Minorco is committed to participate pro rata to its interest in Inspiration Resources in any public offerings of shares up to a maximum of \$US80,000,000 and in any event to invest \$US80,000,000, \$US30,000,000 of which represents the reinvestment of the January 17, 1983 loan to Inspiration Resources.
- g. Replacement of 50% of Inspiration Resources Group share capital with the HBMS Consolidated historical share capital.
- h. Effect on the valuation allowance as a result of the allocation of the HBMS excess of underlying book value in Trend over its assigned cost to the investment in Adobe.
- i. Replacement of 50% of Inspiration Resources deficit with the HBMS Consolidated historical retained earnings.
- j. Replacement of 50% of Inspiration Resources Group goodwill amortization with the corresponding HBMS historical carrying values.
- k. Elimination of HBMS’ share of losses in Inspiration Resources.

The reorganization costs incurred to December 31, 1982 of \$US883,000 have been expensed in 1982 and the 1983 estimated costs of \$US2.8 million will be expensed as incurred.

INFORMATION CONCERNING HBMS

The Business of HBMS and the Inspiration Resources Group

HBMS was incorporated under the laws of Canada in 1927 and has, since July 1978, been governed by the CBCA. The registered office of HBMS is 28th floor, Toronto-Dominion Bank Tower, Toronto-Dominion Centre, Ontario, M5K 1B8.

HBMS is a diversified natural resource company engaged, directly and through its subsidiaries and associated companies, in four natural resource related businesses (metals, petroleum, agricultural chemicals and coal), with principal operations in Canada, the United States and Indonesia. The administration and investment activities of HBMS currently are coordinated from its head office in Toronto, Ontario.

The natural resource related businesses of HBMS are conducted through Canadian Metals which mines and processes metals (primarily copper, zinc, gold and silver) in Canada and through its 50% equity interest in the Inspiration Resources Group. The Inspiration Resources Group is engaged in the production and marketing of metals (principally copper), coal and agricultural chemicals from operations in the United States, and in the production and marketing of petroleum, principally from operations in Indonesia and the United States.

Inspiration Resources, formerly Plateau Holdings Inc., currently is 50% indirectly owned by HBMS and 50% indirectly owned by Minorco, a publicly traded Bermuda corporation, which also indirectly owns approximately 44% of HBMS. The principal subsidiaries of Inspiration Resources are Inspiration Copper, Inspiration Coal, and Terra. Trend is currently owned equally by Minorco and HBMS, but as part of the Reorganization (see "THE REORGANIZATION—Description of the Reorganization"), Trend will become a subsidiary of Inspiration Resources. Inspiration Resources along with Inspiration Copper, Inspiration Coal, Terra and Trend and their subsidiaries and investment interests are hereafter referred to as the "Inspiration Resources Group". See the corporate structure chart under "THE REORGANIZATION—Purpose of the Reorganization".

The map on the following page sets forth the principal business locations in North America of HBMS and the Inspiration Resources Group.

The Reorganization will result in the joint direct and indirect investments of HBMS and Minorco in the Inspiration Resources Group being pooled with Canadian Metals in a reorganized Inspiration Resources to become the publicly traded parent company located in the United States with HBMS as one of its subsidiaries. In this section, HBMS and the Inspiration Resource Group will be called the "Group", when referring to the period before the Reorganization, and the "Reorganized Company", when referring to the period after the Reorganization. While Minorco will indirectly own approximately 60% of the equity of the Reorganized Company, Minorco has agreed initially to restrict its voting rights to less than 50%. See "THE REORGANIZATION—Equity Interests Before and After the Reorganization".

Minorco is an investment company which holds investments in companies operating in six continents. These companies are principally engaged in investment banking and the marketing of commodities, the mining and marketing of precious and base metals and of diamonds, industrial operations and the coal and petroleum industries. At the fiscal year ended June 30, 1982 Minorco's total assets were approximately \$US1.8 billion and shareholders' equity was approximately \$US1.6 billion. The principal shareholders of Minorco are Anglo American Corporation of South Africa Limited ("AAC"), a mining finance company, DeBeers Consolidated Mines Limited ("DeBeers"), a diamond mining and investment company, and Charter Consolidated P.L.C. ("Charter"), an industrial and mining company, which own approximately 41%, 22% and 10%, respectively, of Minorco. Approximately 36% of Charter's outstanding ordinary shares are beneficially owned by Minorco through a wholly-owned subsidiary. Approximately 38% of AAC is controlled, directly or through subsidiaries, by DeBeers. Approximately 31% of DeBeers is controlled, directly or through subsidiaries, by AAC. Mr. Harry F. Oppenheimer is Chairman of DeBeers and a director of Minorco. He, with members of his family, has indirect partial interests in approximately 6.5% of the outstanding shares of Minorco and 8% of the outstanding shares of AAC. See "INFORMATION CONCERNING INSPIRATION RESOURCES—Security Ownership".

History

HBMS began operations in 1930 in Flin Flon, Manitoba, where it has developed a large integrated base metals mining and production operation. Over the past decade HBMS, in conjunction with Minorco or on its own, has made investments in copper in the United States through Inspiration Copper, in agricultural chemicals in the United States through Terra, in tantalum mining in Canada through Tantalum Mining Corporation of Canada Limited ("Tanco"), in an industrial mineral operation and a zinc oxide operation in Canada through Canadian Metals, in petroleum in North America and Indonesia through Trend and in coal in the United States in 1981 and 1982 through Inspiration Coal.

HBMS and the Inspiration Resources Group, Principal Operations and Administrative Offices in North America



The following table sets forth selected pro forma financial information for the Group. The information with respect to Canadian operations has been restated based on generally accepted accounting principles in the United States ("United States GAAP").

	Pro Forma Financial Information Year Ended December 31,				
	1982	1981	1980	1979	1978
	(\$US in millions)				
Total revenue:					
Metals—Canadian operations(1)	\$206	\$262	\$283	\$239	\$168
—U.S. operations	148	173	178	125	101
Petroleum	75	78	83	46	39
Agricultural chemicals	281	327	273	232	178
Coal	72	50	—	—	—
Operating profit (loss) (2):					
Metals—Canadian operations (1)	\$ (27)	\$ 3	\$ 40	\$ 17	\$ 11
—U.S. operations	(14)	(13)	(11)	9	(6)
Petroleum	34	41	50	27	23
Agricultural chemicals	(7)	16	24	10	3
Coal	(5)	2	—	—	—
Identifiable assets:					
Metals—Canadian operations (1)	\$328	\$325	\$315	\$273	\$260
—U.S. operations	224	238	213	178	146
Petroleum	203	145	101	68	65
Agricultural chemicals	213	210	160	138	135
Coal	147	117	—	—	—
Earnings (loss) before extraordinary items	\$ (72)	\$ (13)	\$ 36	\$ 33	\$ 3
Net earnings (loss)	(27)	(13)	54	38	3
Working capital	63	169	189	131	172
Capital expenditures	80	165	113	68	64

(1) Canadian dollars translated into United States dollars for profit (loss) items using an average exchange rate for the applicable year. Translation of balance sheet items is based upon year-end exchange rates.

(2) Operating profit (loss) before deduction of corporate interest, general and administrative expenses, income taxes and royalties, minority interests, share of earnings of associated companies, dividends paid to minority interests and gain on sale of investment.

In 1978, the Group was primarily a base metals producer with significant interests in agricultural chemicals and petroleum. During the following five-year period, the Group increased its investment in base metals production, expanded its investment in agricultural chemicals, disposed of substantially all its Canadian petroleum business while retaining its United States and Indonesian petroleum businesses, and further diversified through the acquisition of its Appalachian coal operations.

Natural resource based companies are sensitive to changes in commodity prices. The following table sets forth a representative sample of selected commodity prices in United States currency (unless otherwise indicated) for each of the periods indicated.

	Average for the Year Ended December 31,				
	1982	1981	1980	1979	1978
Copper (¢/lb)(1)	65.82	78.66	96.76	88.47	62.17
Zinc (¢/lb)(2)	33.73	38.93	34.48	33.69	26.88
Gold (\$/troy oz)(1)	376.23	459.02	611.98	307.82	193.36
Silver (\$/troy oz)(1)	7.95	10.53	20.65	11.20	5.40
Crude oil (\$/barrel)(3)	34.00	32.50	28.67	17.29	17.70
Tantalum pentoxide (\$US/lb)(4)	45.25	87.22	74.41	36.18	N/A

(1) New York Commodity Exchange ("Comex") prices as published in Metals Week.

(2) London Metal Exchange quoted cash prices as published in Metals Week.

(3) OPEC average benchmark crude oil price—Saudi Arabian light crude.

(4) Average selling price for tantalum pentoxide sold by Tanco.

N/A = Not Available

Operating Results

In 1978, operating profit before taxes of the Group continued to be adversely affected by low base metals prices, although earnings from petroleum operations contributed to a small overall profit for the Group.

In 1979, operating profit before taxes of the Group improved significantly as a result of higher selling prices and increased demand for copper, zinc, gold, silver and tantalum. The petroleum segment also improved its contribution to operating results as a result of higher Indonesian crude oil prices. The improved 1979 operating results also reflected the Group's increased equity interest in Inspiration Copper, up from 73% to 100%.

In 1980, operating profit before taxes of the Group increased as the prices for most of the products sold by the Group increased from 1979 prices. Terra experienced record revenues and the highest level of earnings since 1976. These improved operating results were achieved despite lower sales volumes in metals, fertilizers and petroleum, increased costs for labour, materials and energy, and a four-month strike at the Inspiration Copper mining operation which caused the latter to experience a loss. In addition, the Group experienced a gain of \$Cdn19.5 million from the sale of HBMS' investment in Rosario Resources Corporation, purchased in 1979.

The economic recession which began in 1980 had a significant negative impact on the operating results of the Group for the following two fiscal years. High inflation and interest rates in 1981 combined to reduce consumer and capital goods consumption with a resulting reduction in world demand and prices for base metals. As a result, the Group experienced reduced sales levels and experienced losses from its metals operations during 1981. The agricultural chemicals business recorded lower operating profits in 1981 as compared to 1980 because increases in revenues did not keep up with increases in costs. Increases in revenues from the sale of crude oil and natural gas in the United States were more than offset by lower revenues from Indonesian crude oil. This combined with increased operating costs and depletion expense caused Trend's operating profit to be reduced in 1981. In 1982, certain transactions were carried out which resulted in the Group acquiring its 27% interest in Adobe Oil & Gas Corporation ("Adobe"), a publicly traded United States oil and gas company. In June 1981, the remaining 45.3% of Terra not held by the Group was acquired from the public. During 1981, the Group continued its plan of diversification with an investment of \$US160.2 million in United States coal companies including redundant working capital of \$US59.6 million, resulting in coal operations being acquired at a cost of \$US100.6 million. The acquisitions of the coal properties in the Appalachian area positioned the Group to be a major supplier of premium quality coking and steam coals in the United States. However, the economic recession also had a negative effect on the Group's coal operations as reduced demand for coal resulted in low mine utilization rates. During 1981, the Group experienced a gain of \$US10.4 million from the sale by Inspiration Development Company of the Ferron Canyon coal property in Utah.

Total borrowings of the Group at year end 1981 had increased to \$US345 million from the previous year end level of \$US183 million. This increased level of debt, combined with the higher level of interest rates, resulted in an increase in interest expense during 1981 to \$US29 million from \$US19 million in the previous year.

As the economic recession extended into 1982, dramatic declines in the demand and prices for a broad spectrum of natural resource products were experienced. Base metals prices were particularly affected by declines in housing starts, automobile production and major construction projects. The price of copper, in real terms, fell to its lowest level in 50 years and operating losses (before interest expense, general corporate expenses, income taxes and royalties) in the metals segment of the Group were approximately \$US41 million. The agricultural chemicals business of Terra experienced its first operating loss in 12 years as a result of a depressed United States agricultural economy, decreased product prices and increased costs. The Inspiration Coal operations continued to experience depressed operating results due to low coal prices and demand. The temporary idling of some of its mines was scheduled on a rotating basis throughout 1982 and during the fourth quarter the mines were operating at 31% of production capacity. The petroleum segment experienced an 18% decline in operating profit in 1982 as compared to 1981, principally because of lower oil prices and higher operating costs in the United States. Another factor which contributed to the 1982 loss was the \$US49 million interest expense paid on the Group's total borrowings which had increased to \$US459 million by year end.

Restraint Measures

During 1981, the Group recognized that the continuing economic recession required extraordinary actions to preserve the Group's diverse asset base and to maintain liquidity.

Beginning in the fourth quarter of 1981 Canadian Metals initiated an intensive ongoing productivity program and deferment of discretionary capital, mine development and exploration expenditures, which will continue at least until the end of 1983. Canadian Metals' total work force has been reduced from 3,639 as at January 1, 1982 to 2,807 employees at December 31, 1982, a reduction of over 800 employees. The Flin Flon and Snow Lake operations were shut down for eight weeks in the summer of 1982. The Group estimates that cash savings associated with the productivity improvement program, production shut down and deferred capital and development expenditures at Flin Flon in 1982 amounted to approximately \$Cdn50 million as compared to previously budgeted expenditures. In addition, Canadian Metals completed the sale of the Island Falls power plant, located in the Province of Saskatchewan, with the final payment of \$Cdn19 million, net of related expenses. The completion of this sale resulted in an overall extraordinary gain of \$Cdn56 million in 1982. However, Canadian Metals will receive future electrical requirements from the Province of Manitoba at a substantially higher cost than previous power supplies.

At Inspiration Copper the restraint program, which began in the fourth quarter of 1981, resulted in a 34% reduction of personnel, substantial reductions in capital expenditures and major reductions in maintenance and supplies and the shut down of a mining operation. All exploration activities were suspended in 1982. The Group estimates cash savings associated with the restraint program for Inspiration Copper in 1982 amounted to approximately \$US30 million as compared to previously budgeted expenditures.

At Terra, capital expenditures were held to a minimum throughout 1982 and strict cost control measures were introduced in 1982 including a wage freeze effective January 1, 1983.

At Trend, capital expenditures for land, seismic, drilling and production equipment were reduced to \$US30 million from the 1981 level of \$US66 million.

At Inspiration Coal, cash conservation measures were introduced in 1982 which resulted in a series of temporary idlings of several mines and in the deferral of all discretionary capital expenditures. In February 1983, the Group announced the idling of the Harman coal mining operations, representing approximately 26% of the Group's coal segment's capacity, until coal markets improve.

In an effort to further conserve cash resources, the Board of Directors of HBMS decided to limit dividends paid on HBMS Common Shares in 1982 to approximately \$Cdn1.0 million (\$Cdn0.10 per share) in cash, and paid stock dividends amounting to 129,305 shares (valued at approximately \$Cdn2.0 million or \$Cdn0.20 per share), down from dividends paid entirely in cash of \$Cdn10.6 million in 1981.

Working Capital Position

The rapid decline in working capital from \$US189 million as of December 31, 1980 to \$US63 million at the end of 1982 demonstrates the adverse effect of the economic recession on the amount of the Group's liquid assets. This reduction was a result of the lower accounts receivable and inventory levels required by lower sales activity; as well a decrease in cash accounts and an increase in short term borrowings funded operating cash deficiencies and repayment of long term debt.

The growth and expansion of the Group through acquisitions was funded to a major degree by debt financing, and to a lesser extent by financing provided by Minorco, asset dispositions and internally generated cash flows. From December 31, 1980 to December 31, 1982 total borrowings increased from \$US183 million to \$US459 million. Over the same period, shareholders' equity increased slightly from \$US393 million to \$US397 million. It is planned that the Reorganized Company will continue to minimize its cash requirements. Anticipated capital expenditures, compliance with borrowing covenants and the desired reduction in the level of total borrowings will still require a substantial inflow of equity capital.

One of the objectives of the Reorganization is to restructure HBMS and Inspiration Resources to permit better access to capital markets in both Canada and the United States. The Reorganized Company intends to raise additional equity capital through public offerings, including a Canadian public offering of HBMS Special Shares immediately after the Reorganization, subject to market conditions. Provided the Reorganization is completed, Minorco has agreed to invest \$US80 million of additional equity capital in Inspiration Resources pro rata and concurrently with any equity financing by the Reorganized Company. \$US30 million of this commitment represents reinvestment of an existing loan to Inspiration Resources. If an equity financing does not occur in 1983, Minorco has committed to invest the \$US80 million before the end of 1983, on terms to be agreed by the Reorganized Company and Minorco. HBMS and Inspiration Resources believe that the Reorganized Company can satisfy its cash requirements in 1983 through equity financings, cash flow from operations and existing unused lines of credit which, as of April 15, 1983, were \$US152.3 million. However, management considers that drawing down the unused lines of credit would be the least desirable financing alternative.

Current Position

The Group's earnings are sensitive to demand for its products and, in particular, world prices of base metals and changes in interest rates. Based on 1982 production levels, a change in the average annual realized prices of copper and zinc of one cent US per pound would have affected the Group's cash flow by approximately \$US2 million and \$US0.6 million, respectively. A change in the average realized price of crude oil of one dollar US per barrel would have affected the Group's annual net earnings by approximately \$US0.7 million. Based upon the March 31, 1983 level of floating rate debt of the Group, a one percent change in the average annual interest rate would have affected 1982 net earnings by approximately \$US3.3 million.

Although demand for copper and other base metals has not returned to historical levels, some recovery of base metals prices, particularly for copper, has been experienced in the first quarter of 1983. The Group's agricultural chemical business continues to be adversely affected by the depressed agricultural economy and a negative impact from reduced crop acreages in the United States as a result of the U.S. government's payment-in-kind (PIK) program is anticipated. Despite lower prices for crude oil, Trend's first quarter operating earnings in 1983, excluding an unusual item relating to a refund of prior year's Indonesian taxes, are expected to be approximately equal to the first quarter of 1982. The continuing low level of demand for coal will result in the coal operations continuing to operate at a loss. Despite these factors, higher metal prices and sharply reduced costs at the metal operations are expected to result in a significant improvement in the overall first quarter operating results compared to the first quarter of 1982.

From January 1, 1978 to December 31, 1982, the Group had capital expenditures of approximately \$Cdn245 million in Canadian Metals and \$US116 million in Inspiration Copper. In Canadian Metals these expenditures were largely made to develop new mining properties and existing mines, upgrade and expand the Flin Flon metallurgical complex, build a new ore concentrator at Snow Lake and maintain production equipment. At Inspiration Copper these expenditures were designed to increase production of copper at a lower cost through the patented "ferric cure" leach process and the new solvent extraction plant, to upgrade and modernize the mining and concentrating facilities, and the refinery and rod plant, to improve the smelter through design changes and installation of modern pollution control equipment, and to computerize the production and mine planning operations. The Group believes the capital expenditures over the past five years have enhanced its competitive position in base metals and will enable it to take advantage of an improvement in market conditions for these principal products. In addition, operating losses experienced in the past have provided the Group with tax losses which will reduce future cash taxes, as profits are made.

Metals—Canada

Canadian Metals' primary facilities consist of a mining and metallurgical complex for the extraction of copper, zinc and other metals in the Flin Flon/Snow Lake area, approximately 400 miles northwest of Winnipeg, Manitoba. This complex includes two concentrators, a copper smelter, a zinc refinery and ancillary facilities for processing ore mined from ten underground mines operated by Canadian Metals and copper and zinc concentrates purchased from outside sources. The following table sets forth selected financial statistics for Canadian Metals for the periods indicated. For purposes of the Metals-Canada section, financial statistics show HBMS as a subsidiary of Inspiration Resources, after giving effect to the Reorganization, and are based upon United States GAAP.

	1982	1981	1980	1979	1978
	(\$US in thousands)				
Total revenue(1)	\$205,872	\$261,606	\$283,356	\$239,068	\$168,232
Operating profit (loss)(2)	(27,055)	2,639	39,716	17,343	11,054
Working capital	28,549	37,179	84,974	46,948	83,457
Identifiable assets	328,115	324,643	315,308	272,763	259,750
Long term debt	80,361	60,396	63,622	67,350	68,576

(1) Including interest and other income, and net of freight and selling expenses.

(2) Operating profit (loss) before deduction of interest expense, corporate expenses, income taxes and royalties.

Mineral Properties and Ore Reserves

Canadian Metals' four operating mines in the Flin Flon area are Flin Flon, Centennial, Trout Lake (44% ownership) and Westarm, all of which are located on or near the border between the Provinces of Saskatchewan and Manitoba. An additional six operating mines, Stall Lake, Anderson Lake, Osborne Lake, Chisel Lake, Spruce

Point and Ghost Lake are located in the Snow Lake area in the Province of Manitoba, approximately 75 miles east of Flin Flon. The Whitehorse Copper mine ("Whitehorse Copper") in the Yukon, in which Canadian Metals has a two-thirds interest, was permanently closed on December 31, 1982 as its economic reserves had been exhausted.

The principal metals contained in the Canadian Metals mineral properties are copper, zinc, gold, silver and tantalum.

The following table sets forth an estimate of Canadian Metals' Flin Flon/Snow Lake area ore reserves prepared by Canadian Metals' geologists as at December 31, 1982:

	<u>Ore</u>	<u>Copper</u>	<u>Zinc</u>	<u>Gold</u>	<u>Silver</u>
	(000's of tons(3))	(%)	(%)	(troy oz/ton)	(troy oz/ton)
Flin Flon/Snow Lake					
Proven(1)	14,400(4)	2.66	2.8	0.035	0.51
Probable(2)	2,880(4)	1.84	3.0	0.036	0.55

- (1) Proven reserves consist of estimated quantities of commercially recoverable reserves that, on the basis of geological, geophysical and engineering data, can be demonstrated with a reasonably high degree of certainty to be recoverable in the future from known mineral deposits by either primary or improved recovery methods.
- (2) Probable reserves consist of estimated quantities of commercially recoverable reserves that are less well defined than proven reserves and that may be estimated or indicated to exist on the basis of geological, geophysical and engineering data.
- (3) Tons indicate short tons throughout this document.
- (4) Figures include Canadian Metal's 44% share of Trout Lake reserves.

Historically, new ore found in mines under development and in new mines has been sufficient to replace annual production from the Flin Flon/Snow Lake operations and reserves have generally provided for eight years of mining at normal production levels. During 1982, the reduction in exploration and development expenditures reduced replacements to reserves and the amount of proven reserves fell below historical levels. However, at current production levels, proven reserves at December 31, 1982 would still provide for seven years of mining and Canadian Metals believes that reserves can be restored to historical levels through additional exploration and development expenditures in the Flin Flon/Snow Lake area.

The Group has a 37.5% equity interest in Tanco, located in southeastern Manitoba. Tantalum pentoxide in the concentrate shipped in 1982 totalled 130,683 pounds. Operations were suspended indefinitely on December 31, 1982 due to high product inventory and weak market conditions. This resulted in 109 employees being permanently laid-off. At April 1, 1983, Tanco had approximately 274,000 pounds of tantalum pentoxide in inventory available for sale.

The following table sets forth an estimate of Tanco's ore reserves prepared by Tanco's geologists as at January 1, 1983:

	<u>Ore</u>	<u>Tantalum pentoxide</u>
	(000's of tons)	(%)
Ore:		
Proven(1)	353	0.179
Probable(2)	652	0.105
Stored tailings:		
Proven(1)	327	0.065
Probable(2)	375	0.065

- (1) See footnote (1) to the previous table above for definition of proven reserves.
- (2) See footnote (2) to the previous table above for definition of probable reserves.

Canadian Metals' mineral properties located at Flin Flon/Snow Lake are held under Crown production leases from the Provinces of Manitoba and Saskatchewan.

Approximately 90% of the Flin Flon/Snow Lake metal ore reserves are located in Manitoba. Of these, approximately 70% are governed by Crown production leases with terms of 21 years, renewable for 21-year terms on such conditions as are prescribed by the Province of Manitoba. Some of these leases have expired and Canadian Metals, like other mining operations in Manitoba, is awaiting renewal of such leases. The remaining 30% of Canadian Metals metal ore reserves in the Province of Manitoba are held under another form of production lease with similar terms. These latter leases have an average remaining term of 19 years. Although the granting and renewal of Crown production leases are subject to certain minimum requirements set by the Province of Manitoba, Canadian Metals believes that new leases will be granted if required, and existing leases renewed in due course with no material change in terms and conditions. Payments made with respect to Manitoba Crown production leases in 1982 were \$Cdn27,650.

All of Canadian Metals' metal ore reserves in the Province of Saskatchewan are governed by Crown production leases with terms of not more than 21 years, renewable on such conditions as are prescribed by that Province. At present these leases are being renewed by the Province for successive terms of ten years with no material change in terms and conditions. Payments made with respect to Saskatchewan Crown production leases in 1982 were \$Cdn10,100.

Production

The following table sets forth the annual ore production tonnage and average grades for Canadian Metals mineral properties located in the Flin Flon/Snow Lake area and for Whitehorse Copper for each of the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
Flin Flon and Snow Lake					
Tons mined (000's)	1,798(1)	1,935	1,875	1,882	1,851
Copper grade (%)	2.13	2.01	2.10	2.23	2.26
Zinc grade (%)	2.76	2.34	2.61	2.94	3.16
Gold (troy oz/ton)	0.043	0.034	0.035	0.034	0.035
Silver (troy oz/ton)	0.529	0.486	0.536	0.543	0.607
Whitehorse Copper(2)					
Tons milled (000's)	599	534	567	609	575
Copper (%)	1.39	1.42	1.58	1.12	1.40

(1) Includes Canadian Metals' 44% share of production from the Trout Lake mine. Flin Flon and Snow Lake operations were shut down for 8 weeks in this period for economic reasons.

(2) Represents Canadian Metals' 66% share of production.

The following table separates the ore mined by Canadian Metals at the Flin Flon and Snow Lake area mines and sets forth the average grade of those ores for the year ended December 31, 1982:

	Flin Flon Area Mines	Snow Lake Area Mines
Tons mined (000's)	924,588	873,213
Copper grade (%)	1.86	2.50
Zinc grade (%)	2.23	3.04

The ores from Flin Flon and Snow Lake area mines are treated in concentrators located in each of those areas. The copper and zinc concentrates produced by Canadian Metals and similar concentrates purchased from others are processed to anode copper and slab zinc in the metallurgical complex in Flin Flon which includes a copper smelter and zinc refinery. Copper anodes are toll refined in Montreal, Quebec to produce copper cathodes, gold, silver, selenium and tellurium. Cadmium metal is a by-product in the zinc refining process. The Flin Flon and Snow Lake operations receive all their purchased concentrates and transport all their products by a Canadian National Railway spur line. While it is unlikely that this rail line would be closed for economic reasons, in the event that rail transportation was no longer available, Canadian Metals could ship finished product by truck without affecting its viability.

The following table sets forth the tonnage of copper and zinc concentrate produced by Canadian Metals and the average grades for each of the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
Copper concentrate (tons)	186,839	191,571	193,958	204,597	212,237
Copper grade (%)	19.77	18.66	18.28	17.12	18.00
Zinc concentrate (tons)	80,684	60,046	63,926	69,616	80,357
Zinc grade (%)	48.81	49.80	49.27	49.49	49.81

In 1982, 45.1% of copper metal and 48.5% of zinc metal production was from purchased concentrates, the major source being two mines of Sherritt Gordon Mines Limited ("Sherritt") in Northern Manitoba. In 1981, which is considered a typical year in this regard by Canadian Metals, Sherritt's mines supplied 69% of purchased copper concentrate and 52% of purchased zinc concentrate. However, with the 15-week shutdown of some of Sherritt's mining operations during 1982 in response to economic conditions, Sherritt supplied only 57% of the total purchased copper concentrate and 25% of the total purchased zinc concentrate. While Canadian Metals' contracts for Sherritt copper and zinc concentrates expire in 1983, Canadian Metals anticipates that the contracts will be renewed. In the event that this source is no longer available, alternative material is available, but at a higher transportation cost than existing supplies. Sherritt has recently announced its intention to close the smaller of its two mines in Northern Manitoba when ore reserves are exhausted in 1985. The Group believes that after 1985 the remaining Sherritt mine will be capable of supplying the majority of the concentrates required by Canadian Metals in addition to its own production; the remainder of the required concentrates can be obtained elsewhere in Canada, although at a higher transportation cost.

The following table sets forth the metal produced by Canadian Metals for each of the periods indicated:

	Year Ended December 31,				
	1982*	1981	1980	1979	1978
			(in thousands)		
Refined copper (lbs)	121,264	148,267	145,013	133,762	137,103
Slab zinc (lbs)	122,865	149,194	153,031	147,361	141,779
Gold (troy ozs)	70	65	74	63	69
Silver (troy ozs)	1,360	1,267	1,315	1,196	1,305
Cadmium (lbs)	176	184	194	194	349
Selenium (lbs)	72	84	97	83	83

*During the summer of 1982, depressed copper, zinc and precious metal prices prompted the closing of the Flin Flon and Snow Lake operations for a period of 8 weeks.

Canadian Metals owns the surface rights to the property located at Flin Flon on which the metallurgical complex is located. Canadian Metals holds surface rights for the site of the Snow Lake concentrator which do not expire as long as Canadian Metals continues mineral production in the Snow Lake area.

Metals Marketing

As a producer of copper, zinc, gold, silver and various other metals, the Group competes with other major producers in North America and throughout the world. The metals industry is characterized by cyclical and volatile commodity prices, little product differentiation and strong competition. The market for the Group's principal product, refined copper in cathode and rod form, is composed primarily of wire and cable manufacturers, other copper and brass fabricating companies and certain manufacturing companies in the electrical and other fields. Materials with which copper products compete include aluminum, plastics and glass. Zinc is used primarily for the galvanizing of steel and diecasting of automotive and other parts. Materials with which zinc competes include plastic and aluminum.

Canadian Metals and Inspiration Copper market metals through Hudson Bay Marketing Division Inc. (the "Marketing Division"), a wholly-owned subsidiary of HBMS, with offices in Toronto and New York. The

Marketing Division is also responsible for the acquisition of concentrates required in excess of domestic mine production at Canadian Metals and Inspiration Copper. Copper is sold in North America on the basis of Canadian Metals' and Inspiration Copper's listed prices. These listed prices bear an indirect relationship to the New York Commodity Exchange ("Comex") price for copper, averaging a few cents per pound higher than the Comex price. Copper is sold in overseas markets on the basis of the London Metal Exchange ("LME") price plus a small premium. Zinc is sold in North America on the basis of Canadian Metals' listed price in the particular market area. Gold and silver are sold in North America on the basis of Comex prices.

The following table sets forth gross revenues of the Group for their major products for each of the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(\$US in millions)				
Copper(1)					
Canadian Metals(2)(3)	\$103.1	\$112.4	\$134.5	\$127.4	\$88.1
Inspiration Copper	106.8	123.5	137.1	85.6	59.6
Zinc(1)(2)(3)	51.0	75.2	51.4	65.1	44.6
Gold(1)					
Canadian Metals(2)(3)	24.0	32.5	41.7	18.8	13.8
Inspiration Copper(4)	1.7	2.0	2.3	2.9	1.2
Silver(1)					
Canadian Metals(2)(3)	10.4	13.7	25.7	13.2	7.1
Inspiration Copper(4)(5)	9.2	6.6	13.0	15.1	7.2

- (1) Gross revenue before marketing, transportation and (in the case of Inspiration Copper) mining severance taxes.
- (2) Includes metal purchased in concentrate form or derived from purchased concentrates.
- (3) Canadian dollars translated to US dollars based upon average exchange rate applicable during the year.
- (4) Gold and silver recovery from the Inspiration Copper operations (other than the silver produced by Inspiration Mines' Black Pine mine) is in the form of relatively minor refinery by-products from treating Inspiration Copper and toll concentrates.
- (5) Made up of silver production from Inspiration Mines' Black Pine mine and metal from toll concentrates.

The metals products are sold primarily in Canada and the United States and to a lesser extent in overseas markets. Since the Group has production facilities in Canada and the United States, the Marketing Division has significant flexibility in the sale and delivery of its own base metal products, the negotiation of contracts for raw materials and the exchange of raw materials and base metal products with other producers.

During 1982, a marketing strategy designed to minimize inventories and maximize cash flow was implemented. As a result of this strategy, inventory levels of concentrates and refined copper were negligible throughout most of the year. In contrast, copper inventories in the Comex and LME warehouses plus inventories held by copper producers increased 374,000 tons to 1,172,000 tons during 1982.

Capital Projects

From 1978 through December 31, 1982, Canadian Metals expended approximately \$Cdn245 million, largely to explore and develop new mining properties and existing mines, build a new concentrator in Snow Lake, upgrade and expand production facilities and maintain production equipment.

The Trout Lake orebody in the Province of Manitoba was developed under a joint venture agreement entered into in 1981 with mining companies from Sweden and Finland and Manitoba Mineral Resources Ltd. Canadian Metals earned a 44% interest in the joint venture by expending approximately \$Cdn28.7 million to develop the property. Production began at Trout Lake in mid-1982 at 900 tons per day of copper-zinc ore and is expected to reach 2100 tons per day in 1983. The Spruce Point Mine in the Flin Flon/Snow Lake area reached commercial production in 1982 at a cost of approximately \$Cdn17.5 million with a further \$Cdn2.0 million required for full

development. Current plans for the Spruce Point Mine call for production of 100,000 tons of copper-zinc ore in 1983. The shaft sinking at the Rod Mine in the Snow Lake area has been completed at an aggregate development cost of \$Cdn7.7 million. Lateral development is scheduled for the second quarter of 1983. Substantial expenditures have also been made, as described below, on the Tom Valley lead/zinc property.

The concentrator at Snow Lake was completed in 1979, adding 3,800 tons per day of ore capacity to Canadian Metals' operations at a cost of approximately \$Cdn35.0 million.

In the Flin Flon metallurgical complex, a hot purification circuit was added to the zinc leaching plant in 1981, a roaster precipitator was installed in 1981 to reduce atmospheric emissions and a zinc casting plant was put in service in 1982. The zinc casting plant incorporates new casting and slab handling equipment as well as an electric induction furnace for melting zinc cathode sheets which will replace two existing reverberatory-type melting furnaces. These projects and other improvements were made at an aggregate cost of approximately \$Cdn20 million.

Canadian Metals total capital expenditures were approximately \$Cdn43.3 million in 1982, \$Cdn80.3 million in 1981, \$Cdn36.6 million in 1980, \$Cdn37.5 million in 1979 and \$Cdn46.8 million in 1978. Mine development costs of a current nature included in the above capital expenditures are \$Cdn6.2 million, \$Cdn11.4 million, \$Cdn8.3 million, \$Cdn8.1 million, \$Cdn4.8 million for years 1982 through 1978, respectively. Capital expenditures, exclusive of exploration costs, are expected to be approximately \$Cdn16 million in 1983.

Exploration

The Tom Valley lead-zinc property near the MacMillan Pass on the Yukon-Northwest Territories boundary was discovered in the 1950's. An aggregate of \$Cdn16.4 million has been expended in delineating and developing this property, of which \$Cdn14.8 million has been expended in the past five years. Although some underground development work and various engineering studies continued in 1982, economic conditions prompted the decision to suspend this project in 1982 and to defer underground drilling and other studies pending more favourable economic conditions. HBMS is presently considering its options with respect to the Tom Valley properties.

The following table sets forth the proven and probable reserves tonnages and average grades as estimated by HBMS geologists as at December 31, 1982 for the Tom Valley property:

	<u>Ore</u>	<u>Zinc grade</u>	<u>Lead grade</u>	<u>Silver grade</u>
	(000's of tons)	(%)	(%)	(troy oz/ton)
Proven and probable(1).....	10,800	7.54	6.37	2.15

(1) See footnotes(1) and (2) to the notes to the table under "Mineral Properties and Ore Reserves".

Access to Tom Valley is currently available over a 300-mile gravel road. This road would require major improvements to be used for any mining venture at Tom Valley.

Canadian Metals also has additional properties in various stages of exploration under option, subject to joint-venture agreements or wholly-owned. The expenditures on exploration incurred by Canadian Metals, totalled \$Cdn6.0 million, \$Cdn3.8 million, \$Cdn9.7 million, \$Cdn4.3 million and \$Cdn3.3 million for 1982, 1981, 1980, 1979 and 1978, respectively, net of expenditures recovered from other participants in shared cost programs. In 1983, the net exploration budget of Canadian Metals is \$Cdn3.1 million. In 1982, approximately 71% of exploration expenditures were made in the Flin Flon/Snow Lake area, 21% in the Yukon, 5% in British Columbia and 3% in Eastern Canada. Over the past five years, the focus of exploration activities has shifted away from a broad Canadian exposure towards the current concentration in the Flin Flon/Snow Lake area.

Employee Relations

As at December 31, 1982, Canadian Metals employed 2,807 persons. A two-year collective bargaining agreement, commencing October 1982, was negotiated for the Flin Flon and Snow Lake operations. Canadian Metals considers employee relations at these operations to be good.

Environmental Protection

Canadian Metals' operations are generally subject to government imposed environmental protection standards.

At the present time, Canadian Metals' operations are substantially in compliance with all of the issued orders of the Clean Environmental Commission of the Province of Manitoba. Workplace environment and level of industrial hygiene have kept pace with improvements in the mining industry. Canadian Metals' environmental personnel are active participants in a Federal Government task force established to assist Environment Canada, an agency of the Federal Government, in policy formulation and development.

Capital expenditures on environmental control projects in the Flin Flon/Snow Lake area were approximately \$Cdn1.6 million in 1982, \$Cdn7.0 million in 1981, \$Cdn0.7 million in 1980, \$Cdn0.8 million in 1979 and \$Cdn0.2 million in 1978. Environmental licensing procedures are completed or are underway for all operating mines, for the two mines under development and for atmospheric emissions from the metallurgical complex.

Other Canadian Metals Operations

Francana Minerals, a division of HBMS, has two operations in the Province of Saskatchewan producing sodium sulphate for the detergent and pulp and paper industries. The market for sodium sulphate was good in 1982, and Francana Minerals' profit exceeded budget.

Zochem (zinc oxide production) and Hudson Bay Diecastings (zinc diecastings production), both divisions of HBMS, are located in Brampton, Ontario and are consumers of the zinc produced at the Flin Flon/Snow Lake operations. Both are dependent on the health of the automotive industry, which experienced a substantial decline in demand during 1982. Canadian Metals made several changes in both operations in response to declining volumes and real prices and was successful in increasing Zochem's profit levels over 1981 levels. However, this improvement was more than offset by a loss in Hudson Bay Diecastings which exceeded the previous year's loss.

Francana Minerals, Zochem and Hudson Bay Diecastings do not form a material part of the HBMS assets.

Outlook

During the past five-year period, Canadian Metals has made major investments in operations, upgrading production facilities and increased overall productivity. Recently implemented programs have substantially reduced unit costs. Although finalized first quarter 1983 operating results are not yet available, preliminary results indicate higher copper prices and a reduction in losses as compared to the levels in the fourth quarter of 1982. While leading economic indicators suggest an improvement is taking place in North American economic conditions, it is not certain that a substantial economic recovery is underway. However, HBMS believes the improvements it has made during the past five years have favourably positioned Canadian Metals to benefit from an economic upturn. Based on 1982 production levels, a change in the average annual realized prices of copper and zinc of one cent US per pound would have affected Canadian Metals cash flow by approximately \$US0.8 million and \$US0.6 million, respectively.

Metals—United States

The Group's metals business in the United States is primarily conducted through Inspiration Copper and through Inspiration Mines Inc., a Delaware corporation, both of which are companies in which Inspiration Resources owns all the common shares. (Inspiration Copper and Inspiration Mines, for the purposes of the paragraphs headed "Metals—United States", are collectively referred to as "Inspiration Copper").

Inspiration Copper is a fully integrated copper producer with its operations predominantly located in the State of Arizona. Its operations include several open pit mines, an extensive two-stage dump leaching operation, two copper concentrators, a smelter, a sulphuric acid plant, a solvent extraction plant, an electrowinning and electrorefining tankhouse and a continuous cast rod fabrication plant. Inspiration Copper also smelts copper-bearing materials and, to a lesser degree, provides refining and rod fabricating services for other copper producers under toll contracts. Through a wholly-owned subsidiary, Black Pine Mining Company, Inspiration Copper owns and operates a silver-bearing silica flux mine (the Black Pine mine) near Philipsburg, Montana.

The following table sets forth selected combined financial statistics for Inspiration Copper for the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(\$US in thousands)				
Total revenue(1)	\$147,675	\$173,388	\$178,004	\$124,788	\$101,251
Operating profit (loss)(2)	(14,061)	(12,669)	(10,732)	9,466	(6,501)
Working capital	27,343	27,498	24,785	16,318	28,899
Identifiable assets	223,679	238,496	213,466	178,311	146,345
Long term debt	82,960	89,238	74,630	16,550	23,125

(1) Including interest and other income, and net of freight and selling expenses.

(2) Operating profit (loss) before deduction of interest expense, corporate expenses and income taxes.

The marketing of Inspiration Copper's metals production is conducted by the Marketing Division. See "Metals Marketing" under "Metals—Canada".

Mineral Properties and Ore Reserves

Inspiration Copper's copper properties include the Joe Bush/Thornton and the Live Oak/Red Hill open pit mines at Miami, Arizona (collectively referred to as the Inspiration mines), the Upper and Lower Ox Hide open pits which are located three miles west of Miami, and the Christmas open pit and underground mines which are located approximately thirty-five miles south of Miami. Miami is located approximately 80 miles east of Phoenix, Arizona. Inspiration Copper's land is held as a mixture of freehold property, fee lands and patented and unpatented claims, while Black Pine's land is freehold property.

The following table sets forth an estimate prepared by Inspiration Copper's geologists of Inspiration Copper's proven and probable ore reserves as at December 31, 1982:

	Grade			
	Ore	Copper	Silver	Recoverable Copper
	(000's of tons)	(%)	(troy oz/ton)	(000's of pounds)
Active mines:				
Inspiration mines:				
Proven reserves (1)	164,522	0.53	—	1,442,598
Probable reserves (2)	27,007	0.58	—	281,053
Black Pine mine:				
Proven reserves (1)	1,946	0.34	5.17	11,248
Inactive mines:				
Christmas open pit mine:				
Proven reserves (1)	7,567	0.63	—	71,171
Christmas underground mine:				
Proven reserves (1)	12,862	1.78	—	372,605
Probable reserves (2)	7,269	1.94	—	195,000
Ox Hide mine:				
Proven reserves (1)	28,573	0.30	—	85,286
Sanchez mine: (3)				
Proven reserves (1)	79,362	0.36	—	285,703

(1) Estimates of ore reserves are limited to proven tonnages with the exception of the Inspiration Mines and the Christmas underground mine. A definition for proven reserves can be found in footnote (1) to the notes to the table under "Mineral Properties and Ore Reserves" under "Metals—Canada".

(2) A definition for probable reserves can be found in footnote (2) to the notes to the table under "Mineral Properties and Ore Reserves" under "Metals—Canada".

(3) Sanchez mine is located near Safford, Arizona and is undeveloped.

Production

The following table sets forth combined production of copper ore from the Inspiration mines and the Christmas mine for each of the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(in thousands, except for grade)				
Ore mined (tons)	15,455	17,758	11,419	7,025	5,630
Waste removed (tons)	21,872	23,929	16,073	22,271	15,742
Copper grade (%) of ore mined	0.534	0.503	0.562	0.781	0.709

Operation of the Christmas underground mine was suspended in 1966, and mining operations at the Ox Hide open pit mines near Miami, Arizona have been suspended since 1977. The open pit operation at the Christmas mine was shut down by January 1982 due to low metal prices. It is Inspiration Copper's intention to reopen the Christmas open pit mine only when metals prices improve sufficiently; in addition, the feasibility of opening the Christmas underground mine at some future date is being studied.

Inspiration Copper has fully integrated facilities located on the Inspiration mines property for the treatment of both copper oxide and copper sulphide ores.

As a result of a mining plan developed to optimize the recovery of copper from both of these types of ore, Inspiration Copper is currently focusing its mining activities in the Joe Bush/Thornton open pit mines. The mining plan anticipates a return to the nearby Live Oak/Red Hill area in 1987 where activity was suspended in 1982.

All oxide ore processed by Inspiration Copper comes from its own mines and is treated by a combination of leaching and electrowinning. Lower grade oxide ore is treated by building large "dumps" of ore and by trickling a dilute sulphuric acid solution through the dumps, thereby dissolving the copper. In 1980, Inspiration Copper implemented a patented "ferric cure" leaching process for higher grade oxide ore and certain sulphide ores which involves leaching these ores with a higher strength acid solution. The resulting solution from this process has a substantially higher copper content than that obtained from conventional dump leaching. Although the recovery rate is lower, the overall cost per pound of copper produced by the two leaching methods is generally significantly less than for sulphide ores.

Sulphide ore from Inspiration Copper's mines is treated by conventional concentrating, smelting and electrorefining methods.

Historically, Inspiration Copper has smelted concentrates for others in addition to smelting its own concentrates. At December 31, 1982, Inspiration Copper's only toll smelting contract was with Cities Service Company ("Cities"). This contract covered all of the copper concentrates produced at the Pinto Valley Mill owned by Cities. The Pinto Valley property is located in close proximity to the Inspiration mines and provided about 63% of Inspiration Copper's smelter feed in 1981 and 1982. Since June 1982, the Pinto Valley operations have been shut down, and it has been necessary for Inspiration Copper to supplement its production with feed from its own stockpile and purchased concentrate from third parties.

The Pinto Valley toll contract with Cities expires in August 1984. The contract was assigned to Newmont Mining Corporation ("Newmont") in March 1983 when the latter purchased the Pinto Valley operations. Newmont has recently advised Inspiration Copper that it will not renew the contract when it expires. In addition, Newmont has not yet announced any plans for resumption of the Pinto Valley operations. Inspiration Copper estimates that its own stockpile will be exhausted in June 1983 and is currently seeking alternative sources of supply. A large portion of the operating costs of Inspiration Copper's smelter does not decline if production is reduced. Therefore, if suitable new sources of smelter feed cannot be obtained after June 1983 and after the expiration of the Pinto Valley contract, the impact could be significantly adverse.

The copper from the electrorefining and electrowinning processes, both of which produce refined copper, is either sold or fabricated into continuous cast coiled rod in the Inspiration Copper rod plant.

Sulphur dioxide gas is produced as a byproduct from smelting the copper concentrates and is used to produce sulphuric acid. Under normal circumstances, some of the sulphuric acid produced is used by Inspiration Copper in its leaching process, some is delivered to the toll customer under its toll smelting contract, and the rest is sold on the open market.

The following table sets forth Inspiration Copper's copper production for each of the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(in thousands)				
Concentrator/Leaching Operations					
Copper produced:					
Inspiration mill (lbs)(1)	53,165	57,085	39,515	43,744	39,660
Christmas mill (lbs)(1)	—	17,806	13,153	12,336	—
Leaching (lbs)	73,991	54,513	37,143	42,964	40,685
Total (lbs)	<u>127,156</u>	<u>129,404</u>	<u>89,811</u>	<u>99,044</u>	<u>80,345</u>
Smelter and Acid Plant					
Inspiration Copper concentrates					
treated (tons)	77	139	104	111	96
Toll concentrates treated (tons)	158	237	170	292	324
Total treated (tons)	<u>235</u>	<u>376</u>	<u>274</u>	<u>403</u>	<u>420</u>
Total smelter copper produced (tons) . .	87	111	82	132	139
Sulphuric acid produced (tons)	181	285	176	233	49
Refinery copper cathodes (lbs)	152,376	144,017	81,623	92,166	102,641
Rod Plant copper rod (lbs)	172,487	146,507	76,766	104,600	84,396

(1) The amount of copper produced from Inspiration mill and Christmas mill concentrates is shown before the smelter recovery loss of approximately 3.5% of the copper contained in the concentrate.

Operating capacity of the smelter is currently about 240 million pounds of copper per year which is equivalent to approximately 400,000 tons of concentrate. The amount of concentrate treated in the smelter decreased to 235,000 tons of concentrates in 1982 from 376,000 tons in 1981; approximately 63% was toll material in both years. In addition to the shutdown of the Pinto Valley operations, this reduction resulted from two other events: a smelter shut down at Inspiration Copper for maintenance in the month of August and a molten metal runaway at the Inspiration Copper smelter which occurred in October 1982, and which kept the smelter shut down until January 3, 1983.

Some of Inspiration Copper's mines have a small molybdenum content in their ores which can be recovered in a separate molybdenum circuit in the concentrator when economic. Molybdenum recovery was not economic at December 31, 1982 and is not expected by Inspiration Copper to be economic in the foreseeable future.

Capital Projects

Over the five-year period ending December 31, 1982, Inspiration Copper made substantial investments in production and operating facilities which have significantly reduced its unit cost of copper production. In 1979, a new solvent extraction plant was built by Inspiration Copper, at a capital cost of \$US14 million, to treat low grade leach solution to produce approximately 45,000 pounds of copper per day. A new "ferric cure" process developed at Inspiration Copper was implemented in 1980 at a cost of \$US13 million to treat higher grade oxide and certain sulphide ores by dump leaching. This increased the daily throughput of the solvent extraction plant to over 200,000 pounds of copper. The installation of a modernized cleaner circuit and a filter plant at the concentrator facilities during 1980 and 1982, respectively, at a combined cost of \$US8 million has increased overall performance and copper recovery.

At the smelter, a prototype converter designed by Inspiration Copper was installed in 1981 at a cost of \$US8 million and is successful at eliminating converter fugitive emissions. The installation of a pre-dryer/concentrator in 1980 at a cost of \$US3 million solved low acid strength problems, while modification to the pollution control facilities over the five-year period at a cost of \$US10 million has given Inspiration Copper the best rate of sulphur capture in the State of Arizona. In addition, the installation of modern computerized instrumentation in 1981 at a cost of \$US3 million has greatly aided operating controls. Rehabilitation of the refinery operations over the five-year period, at a cost of \$US3 million, has improved operating efficiency. A new quality control laboratory costing \$US0.6 million was installed in 1982 for rod quality optimization.

Over the five-year period ending December 31, 1982, Inspiration Copper has made total capital expenditures of \$US116.2 million. In 1982, 1981, 1980, 1979 and 1978, the amounts expended were \$US9.5 million, \$US33.6 million, \$US43.8 million, \$US22.2 million and \$US7.1 million, respectively.

The 1983 capital expenditure program of \$US17 million currently contemplates approximately \$US6 million for leaching process capacity expansion, \$US2.6 million for mine development, \$3.4 million for smelter upgrading and approximately \$US5 million for maintaining capital equipment.

Undeveloped Mines and Exploration

Inspiration Copper's exploration and development activities are conducted through Inspiration Mines and Inspiration Development Company, the latter being a wholly-owned subsidiary of Inspiration Copper. Projects under consideration in 1982 by Inspiration Mines included the Sanger prospect in the State of Nevada where drilling has indicated silver mineralization, the Ima silver-tungsten molybdenum prospect in the State of Idaho and the Round Valley tungsten prospect in the State of California. In 1982, Inspiration Development conducted exploration for mineral deposits throughout the western United States, including the State of Alaska. However, at year end, its activities were curtailed for economic reasons. Inspiration Development expended approximately \$US20.0 million on mineral exploration during the five years ended December 31, 1982.

Employee Relations

Inspiration Copper employed 1,446 persons at December 31, 1982 down from 2,181 persons at December 31, 1981. Many work practice changes were implemented in 1982 which resulted in increased productivity. Approximately 74% of the employees are unionized and collective bargaining agreements with these employees will expire on June 30, 1983. The copper mining industry, including Inspiration Copper, has experienced labour strikes every 3 years for the past twenty years, each time the collective bargaining agreements have expired. In view of the poor economic conditions, particularly in the copper industry, Inspiration Copper hopes to negotiate successfully the collective bargaining agreements without a strike. However, no assurance can be given as to the outcome of the negotiations.

Environmental Protection Standards

In response to U.S. federal and State of Arizona air quality standards, Inspiration Copper has expended approximately \$US100 million over the eleven years ended December 31, 1982 for the construction of a new smelter and acid plant and related pollution control facilities, as it was considered not economically feasible to bring the existing smelter into compliance. In addition to these capital costs and the interest payments on debt, the cost of operating the new pollution-controlled smelter is considerably higher than that experienced with the old facilities. Inspiration Copper believes that its current level of smelting costs is high in comparison to, and it is in an adverse competitive position with respect to, a number of other United States smelters that have not met similar pollution control standards. Inspiration Copper expects to expend an additional \$US30 million and may expend up to \$US87 million in 1983 through 1990 for capital expenditures related to environmental control facilities depending upon whether a suitable source of concentrates can be found after the expiry of the Pinto Valley contract and depending upon the conditions and timing of changes to air quality regulations in the future.

Outlook

Inspiration Copper has made substantial improvements in productivity and unit costs as a result of its restraint program started in 1982 and capital expenditures of previous years. These actions have increased plant efficiencies and reliability, reduced personnel, implemented major process improvements, and increased metal recovery and the volume of copper mined. Inspiration Copper's competitive position with respect to other United States copper producers has been enhanced by such cost reduction, provided that adequate supplies of concentrate are available. The extended period over which copper has been at historically very low real prices has set the stage for future price increases when demand for key user sectors increases. Key sectors include consumer durables, automobiles and housing. Based on 1982 production levels a US one cent per pound improvement in the average annual copper price would have had a favorable impact upon Inspiration Copper's cash flow of \$US1.2 million.

Petroleum

The Group's petroleum business is conducted through Trend, a Bermuda corporation, and through Trend's wholly-owned subsidiary, Trend Exploration Limited, a Colorado corporation (collectively referred to as "Trend"). Trend is engaged in the exploration for and development of oil and natural gas in the United States, Indonesia and elsewhere in the world. The maps on the following pages set forth the locations of Trend's operations in North America and Indonesia.

Trend owns a 27% equity interest in Adobe Oil & Gas Corporation ("Adobe"), a publicly traded company listed on the American Stock Exchange. The interest in Adobe was acquired by Trend as part of certain transactions in which HBMS restructured its petroleum interests, effective May 1982, following the completion of an arrangement involving HBMS, Francana Oil & Gas Ltd. ("Francana"), Trend and Sceptre Resources Limited ("Sceptre"), an unrelated third party. Prior to the arrangement, Francana was 58% owned by HBMS and 17% owned by Mincan while Trend was 57% owned by Francana and 43% owned by Minorco. Francana's 27% interest in Adobe and a certain amount of long-term debt was transferred to Trend; Francana's Canadian operations and a specific amount of debt were transferred to Sceptre. Francana's resultant equity interest in Trend was transferred to HBMS along with the rest of Francana's non-Canadian assets. As a result of the two transactions (and subsequent share redemptions), HBMS's ownership of Trend was reduced to 50% with Minorco owning the other 50%. As part of the Reorganization, each such 50% interest will be transferred so that Trend will become a wholly-owned subsidiary of Inspiration Resources.

The following table sets forth selected financial statistics for Trend for the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(\$US in thousands)				
Total revenue(1)	\$ 75,409	\$ 77,630	\$ 83,236	\$45,946	\$39,231
Operating profit(2)	33,610	40,751	50,445	27,327	23,155
Working capital	1,954	17,943	16,625	14,879	13,828
Identifiable assets	203,087	144,882	101,263	68,193	64,661
Long term debt	64,494	25,750	—	—	—

(1) Including interest and other income.

(2) Operating profit before deduction of interest expense, corporate expenses, income taxes and royalties.

Properties

The working interests of Trend in developed and undeveloped oil and gas acreage at December 31, 1982 are set forth below:

	Undeveloped Acres (1)		Developed Acres (2)	
	Gross (3)	Net (4)	Gross (3)	Net (4)
United States:				
Arkansas	30,265	18,222	688	25
Colorado	338,212	101,995	12,696	3,829
Louisiana	34,775	12,177	5,321	1,690
Montana	57,950	30,025	1,309	679
Nevada	426,215	201,047	5,017	309
New Mexico	135,555	22,690	22,547	3,596
Ohio	7,354	6,973	3,196	3,031
Texas	192,054	64,452	10,704	3,592
Utah	151,342	139,645	—	—
Wyoming	117,320	89,679	4,676	3,574
Other	142,761	13,597	9,939	2,103
Total United States	<u>1,633,803</u>	<u>700,502</u>	<u>76,093</u>	<u>22,428</u>
Canada	<u>39,947</u>	<u>14,684</u>	<u>13,142</u>	<u>3,976</u>
International:				
Indonesia:				
Salawati (Irian Jaya)	229,825	62,053	5,167	1,395
Barito (Kalimantan)	1,908,847	858,981	—	—
Egypt	1,482,631	296,526	—	—
Paraguay	27,070,718	2,165,657	—	—
United Kingdom	25,176	906	—	—
Total International	<u>30,717,197</u>	<u>3,384,123</u>	<u>5,167</u>	<u>1,395</u>

- (1) "Undeveloped" acres refers to acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether or not such acreage contains proved reserves.
- (2) "Developed" acres refers to acres treated as assigned to productive wells.
- (3) "Gross" acres refers to acres in which Trend holds a working interest.
- (4) "Net" acres refers to gross acres multiplied by the percentage interest therein owned by Trend.

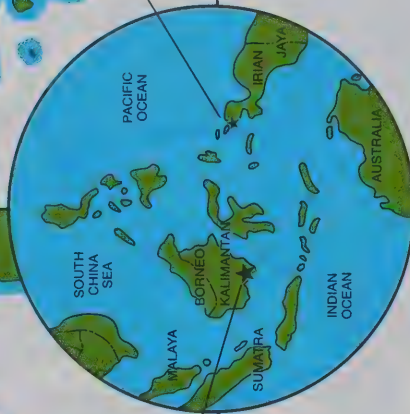
Trend has an 8% interest in three exploration permits in Paraguay, covering approximately 27,070,718 gross acres. The permits for 395,000 of those acres have been converted to exploitation permits, and two non-commercial wells have been drilled. Trend does not act as operator in respect of these permits. Trend also has a 20% working interest in approximately 1,482,631 gross acres in the Tiba region of the Western Desert of Egypt on which one unsuccessful well has been drilled. Trend does not act as operator in respect of this contract.

Trend is a participant in a joint venture which leases geothermal properties located in the States of Oregon, California, Idaho and Washington from the United States government and certain individuals. The total acreage under lease is approximately 283,116 acres, and the net interest is approximately 82,835 acres. All geothermal acreage is undeveloped and unexplored except, in some instances, for surface geological surveys, geochemical surveys and temperature gradient surveys.

Over the years, Trend has engaged in exploration for certain minerals and has acquired interests in mineral prospects in several areas of the world. As at December 31, 1982, Trend had working or royalty interests in a uranium property located in the State of Colorado, a coal property located in the Province of British Columbia and a lead-zinc property located in Australia. Some exploratory work on these properties has been done, but no production is anticipated in the near future.

TREND EXPLORATION LIMITED—UNITED STATES ACTIVITY MAP





INDONESIA INDEX MAP

- 1 Kasim Utara Field
- 2 Kasim Barat Field
- 3 Kasim Field
- 4 Jaya Field
- 5 Cenderawasin Field
- 6 Walio Field
- 7 Moi Field
- 8 Arar Gas Well
- 9 Maniwar Gas Well
- Kasim Marine Terminal

- Trend et al Contract Area
- Oil Field
- Gas Well

Reserves

The following two tables summarize the estimated volume and present worth of Trend's gross and net share of crude oil/natural gas liquids and natural gas reserves as at January 1, 1983. The first table is based upon constant prices while the second table is based upon escalating prices. The estimates for United States reserves included in both tables are presented in a report dated April 28, 1983 by H.K. Van Poolen and Associates, Inc. ("Van Poolen") Denver, Colorado, an independent firm of engineering consultants. The Canadian reserve estimates are included in a report by McDaniel & Associates Consultants Ltd. ("McDaniel") Calgary, Alberta, dated April 29, 1983. McDaniel is an independent firm of engineering consultants. The estimates for Indonesian reserves included in both tables (the "Trend report") have been prepared by Trend's staff.

Estimates of the present worth of estimated future net revenues do not necessarily reflect the fair market value of these reserves if the properties containing these reserves were to be sold.

Petroleum and Natural Gas Reserves and Present Worth of Estimated Future Net Revenue Based on Constant Price Assumptions (1) (12) (20)

	Gross Reserves (2) (13) (21)		Net Reserves (3) (14) (23) and Future Net Revenue (9) (18) (28)					
	Oil (thousands of bbls) (4) (15) (24)	Gas (millions of cu. ft.) (4) (15) (24)	Oil (thousands of bbls) (4) (15) (24)	Gas (millions of cu. ft.) (4) (15) (24)	Future Net Revenue Discounted at			
					0%	10%	15%	20%
United States:								
Proved (5)					(\$US in thousands)			
Developed (6)	22,655	71,223	2,130	10,174	\$65,437	\$47,048	\$41,693	\$37,616
Undeveloped (7) ..	4,642	13,920	436	1,467	8,797	4,966	3,877	3,077
Probable (8)	81	3,850	12	1,805	4,621	1,681	1,162	869
TOTAL	27,378	88,993	2,578	13,446	\$78,855	\$53,695	\$46,732	\$41,562
Indonesia: (30)								
Proved developed (26)	79,092	—	11,154	—	\$97,137	\$73,914	\$66,066	\$59,794
Canada: (20)								
					(\$Cdn in thousands)			
Proved (16)	863	5,339	550	4,019	\$18,401	\$10,226	\$ 8,352	\$ 7,039
Probable (17)	153	340	107	231	668	382	303	280
TOTAL	1,016	5,679	657	4,250	\$19,069	\$10,608	\$ 8,655	\$ 7,319

The following summarizes the estimated volume and present worth of estimated future value of Trend's gross and net share of crude oil and natural gas liquids and natural gas reserves based on escalating prices.

Petroleum and Natural Gas Reserves and Present Worth of Estimated Future Net Revenue Based on Escalating Price Assumptions (10) (19) 27)

	Gross Reserves (2) (13) (21)		Net Reserves (3) (14) (23) and Future Net Revenue (9) (18) (28)					
	Oil (thousands of bbls) (4) (15) (24)	Gas (millions of cu. ft.) (5) (16) (25)	Oil (thousands of bbls) (4) (15) (24)	Gas (millions of cu. ft.) (5) (16) (25)	Future Net Revenue Discounted at			
					0%	10%	15%	20%
United States:								
Proved (5)					(\$US in thousands)			
Developed (6)	22,379	71,397	2,087	10,364	\$ 85,733	\$ 56,765	\$49,052	\$43,426
Undeveloped (7) . .	4,622	13,913	431	1,466	13,876	7,488	5,787	4,572
Probable (8)	81	3,837	12	1,796	8,813	2,856	1,835	1,275
TOTAL	27,082	89,147	2,530	13,626	\$108,422	\$ 67,109	\$56,674	\$49,273
Indonesia: (30)								
Proved developed (26)	79,092	—	12,755	—	\$113,202	\$ 83,994	\$74,302	\$66,633
Canada: (20)								
					(\$Cdn in thousands)			
Proved (16)	863	5,342	522	3,975	\$ 35,810	\$ 15,415	\$11,080	\$ 8,748
Probable (17).	153	339	104	227	1,226	529	385	321
TOTAL	1,016	5,681	626	4,202	\$ 37,036	\$ 15,944	\$11,465	\$ 9,069

United States:

The following notes set out the assumptions upon which the Van Poolen report was prepared:

- (1) The constant price present worth estimates are based upon prices and costs in effect as of January 1, 1983.
- (2) Gross reserves in the United States represent total reserves in which Trend has a working or royalty interest.
- (3) Net reserves are gross reserves less all interests owned by others (where applicable) and royalties payable to others.
- (4) Reserves of natural gas liquids have been included in the volume of oil reserves.
- (5) Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrates with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.
- (6) Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
- (7) Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.
- (8) Probable reserves are defined to be the same as proved reserves but have not been proven by offset production or tests. Reserves attributable to secondary recovery operations, where increased production has not been proven, are also considered to be in this category.
- (9) In the Van Poolen report, future net revenue is future gross revenue (i.e. the amount deemed realizable from the sale of net reserves) less operating expenses, state severance taxes, ad valorem taxes, if known, an estimate of the federal windfall profit tax and future capital costs, but **before state or federal income taxes** and any administrative overhead charges. Future capital costs include the estimated cost of drilling and completion and workovers.
- (10) The following discussion summarizes price schedules and inflation assumptions for the escalated present worth analysis for United States carried out by Van Poolen.

Oil and gas prices and operating costs largely were furnished by Trend to Van Poolen. These prices and costs were assumed to be effective as of January 1, 1983.

Escalation of product prices and operating costs was performed as follows:

- i) Oil prices were held constant in 1983, escalated 4% in 1984, and 7% per year thereafter to a maximum of \$US65.00 per barrel.
- ii) Prices for natural gas liquids were treated in the same manner as oil prices.
- iii) For Natural Gas Policy Act (NGPA) categories scheduled for decontrol under NGPA, current prices were escalated at 7% per year through 1984, then increased to \$US4.00 per thousand cubic feet (MCF) in 1985, and then escalated at 7% per year to a maximum of \$US7.00 per MCF.

For NGPA categories not scheduled for decontrol, current price was escalated at 7% per year to a maximum of \$US7.00 per MCF.

For special categories under the NGPA, as current prices as of January 1, 1983 were over \$US4.00 per MCF, they were held constant through 1984, then decreased to \$US4.00 per MCF in 1985 and escalated thereafter at 7% per year to a maximum of \$US7.00 per MCF.

- iv) Operating costs were escalated at 7% per year until product prices reached their maximum. Thereafter, operating costs were kept constant.

(11) Windfall profit tax was calculated as follows:

Tier #1 (old oil and oil from enhanced recovery technology)—50% on an adjusted base price of \$US14.99/bbl. and phasing out beginning January 1991.

Tier #3 (stripper oil)—25% in 1983, 22½% in 1984, 20% in 1985 and 15% in 1986 on an adjusted base price of \$US19.37/bbl. and phasing out beginning January, 1991.

Canada:

The following notes set out the assumptions upon which the McDaniel report was prepared and one note (note 20) indicating the relationship between the McDaniel estimates and estimates disclosed elsewhere in this Circular:

- (12) The constant price present worth estimates are based upon prices and costs in effect as of January 1, 1983.
- (13) Gross reserves in Canada represent Trend's working and royalty interest in total reserves before deduction of royalties payable to others but after deduction of all interests owned by others.
- (14) Net reserves are gross reserves less all interests owned by others (where applicable) and royalties payable to others.
- (15) Reserves of natural gas liquids have been included in the volume of oil reserves.
- (16) The proved reserves were considered to be those reserves which to a high degree of certainty are recoverable at commercial rates under present depletion methods and current operating conditions, prices and costs. In view of the fact that essentially all of Trend's crude oil reserves in Canada were indicated to be developed, a proven undeveloped category was not considered in this report. A proved undeveloped category was not employed in determining the natural gas reserves of Trend because in essentially all cases sufficient wells were indicated to exist in the various fields in question to provide adequate deliverability to maintain present or anticipated initial rates of production.
- (17) The probable additional crude oil reserves were considered to be those reserves commercially recoverable as a result of the beneficial effects which may be derived from the future institution of some form of enhanced recovery scheme or as a result of the more favourable performance of the existing recovery mechanism than that which could be deemed proven at this time. The probable additional natural gas reserves were based on those potentially productive areas of the natural gas reservoirs in question which could not be deemed proven at this time as well as those reserves that may be derived from the more favourable performance of the individual wells than could be deemed proven at the time of the McDaniel report. The estimated present worth for the probable reserves was predicted on the per unit value assigned to the proven reserves in the various areas in question with an allowance for the degree of risk and the anticipated profitability of producing these additional reserves.
- (18) In the McDaniel report, future net revenue is future gross revenue (i.e. the amount deemed realizable from the sale of net reserves) less operating expenses, estimated capital expenditures, production taxes, an estimate of the Petroleum and Gas Revenue Tax (net of resource allowance deduction) and the Incremental Oil Revenue Tax but **before provincial and federal income taxes** and any administrative overhead charges. Future capital costs include the estimated cost of drilling and completion and workovers.

The following table lists price schedules in Canadian dollars and inflation assumptions for the escalated present worth analysis for Canada carried out by McDaniel.

EFFECTIVE DATE	OLD CRUDE OIL AND CONDENSATE \$/bbl (2)	NORP.* OIL \$/bbl (2)	NATURAL GAS					PROPANE \$/bbl	BUTANES \$/bbl	SULPHUR \$/L.T.	INFLATION RATE OF COSTS %/yr	PETROLEUM AND GAS REVENUE TAX % (4)
			SASK. \$/MCF (3)	ALBERTA \$/MCF	B.C. DEEMED PRICE \$/MCF	OLD NATURAL GASOLINES \$/bbl	NORP* NATURAL GASOLINES \$/bbl					
1/80	14.75	—	0.29	—	1.79	15.05	—	12.97	18.20	42.25	12.50	
8/80	16.75	—	—	—	—	17.09	—	13.85	17.20	70.00	—	
9/80	—	—	—	2.65	—	—	—	—	—	—	—	
1/81	17.75	17.75	0.30	—	1.66	18.11	18.11	15.75	18.50	80.00	12.50	8.0
2/81	—	—	—	2.50	—	—	—	—	—	—	—	—
7/81	18.75	18.75	—	—	—	19.13	19.13	—	—	—	—	—
8/81	—	—	—	—	2.30	—	—	—	—	—	—	—
10/81	21.25	21.25	—	2.59	2.60	21.68	21.68	—	—	—	—	—
1/82	23.50	44.07	1.05	2.70	1.91	23.97	44.95	12.00	20.50	80.00	11.80	16.0
6/82	—	—	—	—	—	—	—	—	—	—	—	14.67
7/82	25.75	41.47	—	2.89	1.45	26.27	—	14.20	23.05	—	—	—
10/82	—	43.37	—	—	—	—	44.24	—	—	—	—	—
1/83	29.75	42.65	1.15	3.04	1.75	31.27	43.50	16.00	24.00	80.00	11.0	—
6/83	—	—	—	—	—	—	—	—	—	—	—	16.0
7/83	31.98	—	—	—	—	32.62	—	—	—	—	—	—
1/84	—	—	1.28	3.33	2.33	—	—	—	—	80.00	10.5	16.0
1/85	33.82	45.62	1.43	3.66	3.07	34.50	46.53	19.99	27.50	80.00	10.0	16.0
1/86	37.06	49.95	1.59	4.01	3.81	37.80	50.95	21.91	31.77	88.00	9.5	16.0
1/87	40.39	54.45	1.76	4.46	4.24	41.20	55.54	24.37	34.62	95.92	9.0	16.0
1/88	43.82	59.07	1.95	4.96	4.71	44.70	60.25	27.10	37.56	104.07	8.5	16.0
1/89	47.33	63.80	2.17	5.51	5.23	48.28	65.08	30.10	40.57	112.40	8.0	16.0
1/90	50.87	68.58	2.41	6.11	5.80	51.89	69.95	33.38	43.61	120.83	7.5	16.0
1/91	54.44	73.39	2.67	6.75	6.41	55.53	74.86	36.88	46.67	129.29	7.0	16.0
1/92	58.25	78.52	2.96	7.39	7.02	59.42	80.09	40.37	49.93	138.34	7.0	16.0
1/93	62.33	84.02	3.27	8.03	7.63	63.58	85.70	43.87	53.43	148.02	7.0	16.0
1/94	66.69	89.90	3.61	8.67	8.24	68.02	91.70	47.36	57.17	158.38	7.0	16.0
1/95	71.36	96.19	3.97	9.31	8.84	72.79	98.11	50.86	61.17	169.47	7.0	16.0
1/96	76.36	102.93	4.35	9.96	9.46	77.89	104.99	54.41	65.46	181.33	7.0	16.0
1/97	81.70	110.13	4.77	10.66	10.13	83.33	112.33	58.24	70.03	194.02	7.0	16.0
1/98	87.42	117.84	5.21	11.41	10.84	89.17	120.20	62.33	74.94	207.61	7.0	16.0
1/99	93.54	126.09	5.68	12.20	11.59	95.41	120.61	66.65	80.18	222.14	7.0	16.0
1/00	100.09	134.92	6.17	13.06	12.41	102.09	137.62	71.35	85.80	237.69	7.0	16.0
1/01	107.09	144.36	6.70	13.97	13.27	109.23	147.25	76.32	91.80	254.33	7.0	16.0
1/01-1/08 thereafter	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	+ 7%/yr NC	7.0 0.0	16.0 16.0

(1) Natural gas liquid mixes (NGL's) were assumed to contain 25% propane, 25% butanes and 50% natural gasolines (C5+) for estimating prices.

(2) Assumes increases in Alberta royalties so as to maintain Crown royalty revenues when productivity declines.

(3) Solution gas only—nonassociated gas varies with producing rate.

(4) Subject to a 25% resource allowance reduction after January 1, 1982 for all interests paying Crown royalties or mineral taxes.

NC—no change

*NORP means New Oil Reference Price

(19) Oil and gas prices and operating costs largely were furnished by Trend to McDaniel. These prices and costs were assumed to be effective as of January 1, 1983.

(20) Canadian reserves and future net revenues set out above are different from similar information disclosed in the Supplementary Petroleum Information set forth in Note 19 of the audited combined financial statements of the Inspiration Resources Group. Amounts shown in the McDaniel report are based on more current estimates of production rates and costs. Revenue amounts shown in the Supplementary Petroleum Information is stated in United States dollars and was translated at a rate of .8098 U.S. dollars to 1 Canadian dollar.

Indonesia:

The following notes set out the assumptions upon which the Trend report was prepared:

(21) The constant price present worth estimates are based upon prices and costs in effect as of January 1, 1983.

(22) Gross reserves in Indonesia represent total reserves in which Trend has a working or royalty interest.

- (23) Net reserves are gross reserves less all interests owned by others (where applicable) and royalties payable to others.
- (24) Reserves of natural gas liquids have been included in the volume of oil reserves.
- (25) Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrates with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.
- (26) Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
- (27) The following discussion summarizes price schedules and inflation assumptions for the escalated present worth analysis for Indonesia carried out by Trend.

Oil and gas prices and operating costs used were those effective as of January 1, 1983.

Escalation of product prices and operating costs was performed as follows:

- i) Oil prices were held constant in 1983, escalated 4% in 1984, and 7% per year thereafter to a maximum of \$US65.00 per barrel.
 - ii) Operating costs were escalated at 7% per year until product prices reached their maximum. Thereafter, operating costs were kept constant.
- (28) The future net revenues for the Indonesian operations were calculated by deducting the domestic market obligation. See "Trend Indonesian Production Sharing Contracts" below. The calculations are **before Indonesian government taxes**.

Other Information:

The following information is relevant to the above estimates of reserves and future net revenues.

- (29) In the first quarter of 1983 the official price for Trend's Indonesian crude oil has decreased from \$US34.40 per barrel to \$US29.00 while prices Trend received for its crude oil in the United States decreased generally, but in no case have decreased more than 10%.
- (30) Trend has also obtained an estimate as of January 1, 1983 of the volume and present worth of the gross crude oil/natural gas liquids in Indonesia and of its share of future net revenues from such reserves from Van Poollen. In Van Poollen's report dated April 28, 1983, Van Poollen estimated gross reserves of proved developed oil at 93,468 thousands of barrels. Trend's internally-generated reserve estimates are lower than those of Van Poollen because of differences in extrapolating historic reservoir performance to depletion. Future net revenue figures in the Van Poollen report for Indonesia are lower than those set out in the above tables because of the differences in the estimates of the gross reserves and because Van Poollen's future net revenue figures are reduced by applicable Indonesian taxes whereas Trend's future net revenue figures are before applicable Indonesian taxes. An estimate of Trend's net entitlement to Indonesian reserves has not been made by Van Poollen.

During 1982, no major discoveries or other events caused any significant change in the estimated proved reserves. In 1982, HBMS filed with the United States Department of Justice and the United States Federal Trade Commission its 1981 Annual Report which included estimated oil and gas reserves of Francana, including those relating to Trend. (For additional reserve information see the Supplementary Petroleum Information set forth in Note 19 of the 1982 audited combined financial statements of Inspiration Resources Group.) The disclosure of probable additional reserve estimates is required by the Securities Act (Ontario) and other securities laws of Canada.

Production

The following table sets forth the production of Trend by geographic area for each of the periods indicated. Canadian and United States production volumes are shown after deduction of lessor and Crown royalties.

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(thousands of barrels)				
Crude Oil & Natural Gas Liquids					
United States (1):					
Arkansas	8.4	1.0	—	—	—
Colorado	55.0	69.7	84.5	88.2	122.4
Louisiana	13.6	16.1	14.6	16.2	10.1
Montana.....	20.2	10.3	2.5	—	—
Nevada	22.5	26.1	35.8	47.3	42.6
New Mexico	33.1	39.2	56.9	65.7	88.0
North Dakota	10.7	11.0	13.9	10.2	18.8
Oklahoma	16.2	30.0	23.6	—	—
Texas.....	142.8	69.5	19.3	1.9	—
Wyoming	45.3	57.5	2.6	—	—
Other.....	6.3	3.5	.7	.5	—
Total United States	374.1	333.9	254.4	230.0	281.9
Canada	71.0	66.0	78.0	82.0	75.8
Indonesia	1,463.0	1,420.9	1,663.3	2,007.0	2,408.0
Total	1,908.1	1,820.8	1,995.7	2,319.0	2,765.7
Natural Gas					
	(millions of cubic feet)				
United States (1):					
Colorado	145.8	136.7	168.8	203.6	260.3
Louisiana	84.7	155.5	59.3	35.5	82.9
New Mexico	32.3	30.9	8.2	2.6	4.1
New York.....	27.7	32.0	38.8	63.3	43.7
Oklahoma	148.2	160.4	77.1	—	—
Texas.....	1131.0	847.3	116.9	—	—
Wyoming3	14.5	—	—	—
Other.....	37.0	8.0	2.0	—	—
Total United States	1,607.0	1,385.3	471.1	305.0	391.0
Canada	179.0	199.0	221.6	258.0	214.4
Total	1,786.0	1,584.3	692.7	563.0	605.4

- (1) On September 4, 1980, as part of an internal reorganization, Provident Resources, Inc. became a wholly-owned subsidiary of Trend. Accordingly, United States activity includes Provident production of 53.7 million, 66.4 million, and 21.2 million barrels of crude and natural gas liquids in 1982, 1981 and 1980, respectively, and 37.7 million, 42.3 million, and 15.5 million cubic feet of natural gas in 1982, 1981 and 1980, respectively.

The following table sets forth the number of productive oil and gas wells in which Trend held a working interest as at December 31, 1982:

	Oil Wells (1)		Gas Wells (1)	
	Gross (2)	Net (3)	Gross (2)	Net (3)
United States				
Colorado	10	5.80	4	1.16
New Mexico	29	1.85	19	2.82
Ohio	—	—	1	1.00
Oklahoma	12	4.45	11	1.89
Texas	28	12.47	12	4.67
Wyoming	134	16.50	1	0.59
Other	48	15.90	10	2.38
Total United States	<u>261</u>	<u>56.97</u>	<u>58</u>	<u>14.51</u>
Canada				
Alberta	101	3.89	4	.58
British Columbia	—	—	2	.08
Total Canada	<u>101</u>	<u>3.89</u>	<u>6</u>	<u>.66</u>
Indonesia	218	58.86	—	—
Total all properties	<u>580</u>	<u>119.72</u>	<u>64</u>	<u>15.17</u>

- (1) “Productive” wells refers to wells that are producing, or are capable of producing, oil or gas in commercial quantities. One or more completions in the same bore hole are counted as one well. None of these wells is a mixed completion.
- (2) “Gross” wells refers to the total number of wells in which Trend has a working interest.
- (3) “Net” wells refers to gross wells multiplied by the percentage working interest of Trend therein, and excludes wells in which Trend has only a royalty interest.

The following table sets forth for each of the periods indicated the U.S. dollar contributions to Trend’s consolidated gross production income generated by the principal products of Trend:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(\$US in thousands)				
Crude Oil & Natural Gas					
Liquids:					
Canada	\$ 2,284	\$ 1,549	\$ 1,750	\$ 984	\$ 946
United States(1)	10,730	11,523	6,302	3,000	2,992
Indonesia	52,403	49,784	53,949	36,737	32,167
Total	<u>\$65,417</u>	<u>\$62,856</u>	<u>\$62,001</u>	<u>\$40,721</u>	<u>\$36,105</u>
Natural Gas					
Canada	\$ 606	\$ 608	\$ 738	\$ 380	\$ 397
United States(1)	4,498	3,857	860	157	272
Total	<u>\$ 5,104</u>	<u>\$ 4,465</u>	<u>\$ 1,598</u>	<u>\$ 537</u>	<u>\$ 669</u>

- (1) On September 4, 1980, as part of an internal reorganization, Provident Resources, Inc. became a wholly-owned subsidiary of Trend. Accordingly, United States activity includes Provident production income of \$US1,579,000, \$US2,135,000 and \$US562,000 of gross production income in 1982, 1981 and 1980, respectively.

As shown in the above tables, substantially all of Trend's production operations are located in the United States and Indonesia, with the production income from Indonesia accounting for approximately 74% of Trend's consolidated gross production income in 1982.

Trend Indonesian Production Sharing Contracts

Trend is engaged in the production of crude oil in Indonesia through a joint venture (the "Salawati Joint Venture") formed in 1970 to explore for and develop hydrocarbon reserves in the Salawati Basin area of Irian Jaya (see map under "Petroleum"). Trend has a 27% interest in and acts as operator for the Salawati Joint Venture. The Salawati Joint Venture operates under a production sharing contract ("Production Sharing Contract") between Trend and P. N. Pertamina Minjak Dan Gas Bumi Negara ("Pertamina"), the Indonesian state oil agency, having a term of 30 years. In 1974 and 1976, at the request of the Indonesian government, the joint venture undertook additional obligations related to the contract, resulting in terms less favourable to the Salawati Joint Venture. In 1978, the contract was amended to reflect those changes. In the future, further such modifications are possible. As of April 15, 1983 the contract covered an area of approximately 235,000 acres.

The Production Sharing Contract entitles the Salawati Joint Venture to recover all of its expenditures related to the operation (the "cost recovery amount") by allocating to the joint venture a portion of the crude oil production ("cost oil") sufficient, at the Indonesian government official crude oil price, to offset the cost recovery amount. The balance of the production after allocation of the cost oil is shared between Pertamina and the Salawati Joint Venture.

Under the terms of the Production Sharing Contract, the balance of the production after allocation of cost oil (such balance being known as "equity oil") is divided among the parties, with 66% going to Pertamina and 34% to the Salawati Joint Venture. There is no royalty payable by the Salawati Joint Venture on its share of production. However, the Production Sharing Contract requires a varying portion of the equity oil, up to a maximum of 25% of the gross production, to be sold to the Indonesian domestic market for \$US 0.20 per barrel ("domestic market obligation"). For oil discovered on or after January 1, 1977 the sale price of oil sold under the domestic market obligation is at the Indonesian government official crude oil price. Pertamina and the Salawati Joint Venture share the domestic market obligation in the same proportion as they share in equity oil. The domestic market obligation at December 31, 1982 was at the maximum level of 25%. Trend is required to pay Indonesian income taxes at the rate of 56%. The cost recovery amount is deductible from the taxable income.

Oil was initially discovered in the Production Sharing Contract areas in September 1972 and additional discoveries have been made since such date, resulting in the delineation of oil fields. While the Production Sharing Contract makes some provisions for sharing natural gas production, no commercially viable fields of natural gas have been discovered and Trend does not expect that any will be found in the contract area; however, two natural gas wells provide fuel for Trend's electrical generating facilities.

Trend Energy Kalimantan Limited, a subsidiary of Trend, has a 45% interest in, and acts as operator for, a joint venture (the "Kalimantan Joint Venture") formed to explore for and develop hydrocarbon reserves in the Barito area of Kalimantan, Indonesia (see map under "Petroleum"). The Kalimantan Joint Venture entered into a production sharing contract with Pertamina on August 27, 1981, on substantially the same terms as the Production Sharing Contract of the Salawati Joint Venture. The Kalimantan Joint Venture completed over 1200 kilometres of seismic survey in 1982 and drilling commenced in 1983. Since the beginning of 1983 one well has been drilled, plugged and abandoned and a second well was spudded in April.

Indonesia is a member of the Organization of Petroleum Exporting Countries ("OPEC"). OPEC's oil pricing policies in the period 1973-1980 involved dramatically increased prices for all hydrocarbons. Pertamina determines official prices of Indonesian oil and monitors oil-field production practices. Indonesian prices have generally followed OPEC pricing policies. Government oil pricing policies and income tax regulations have a significant impact on the profitability of Trend's Indonesian operations. Oil prices in the spot market dropped significantly during 1982. Prices received by Trend were not directly affected by the spot market changes because its production is sold under the Trend Indonesian Marketing Agreement described below.

Unit Prices and Costs

The following table sets forth the average gross sales prices and the average production and operating costs per unit of crude oil and natural gas liquids and natural gas produced by Trend in Canada, the United States and Indonesia for each of the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
Unit Prices (\$US per barrel):					
Crude Oil & Natural Gas Liquids:					
Canada (2).....	\$21.71	\$17.81	\$15.30	\$11.72	\$12.40
United States	28.69	32.46	22.98	13.04	10.61
Indonesia	34.88	35.00	32.36	18.26	13.00
Natural Gas (\$US per mcf):					
Canada (2).....	1.47	1.11	1.20	.86	1.25
United States	2.80	2.78	1.77	1.08	.69
Unit costs (\$US per barrel equivalent): (1)					
Canada (2).....	6.94	3.94	2.36	1.57	1.47
United States	7.86	8.98	7.20	3.30	2.28
Indonesia	11.48	9.84	6.48	4.35	3.21

- (1) Unit production costs are expressed in equivalent units. Gas has been converted to oil based on a relative energy content of 6 mcf to 1 barrel where one mcf represents one thousand cubic feet. Unit costs reflect only production costs and do not include amortization of capitalized costs or general overhead expenses.
- (2) Canadian unit prices and costs have been translated into United States dollars at the following rates: 1982—\$Cdn1.00 to \$US0.8116, 1981—\$Cdn1.00 to \$US0.8450, 1980—\$Cdn1.00 to \$US0.8551, 1979—\$Cdn1.00 to \$US0.8538 and 1978—\$Cdn1.00 to \$US0.833.

In the United States, Trend sells its crude oil to refineries under short-term contracts at the well head or at major pipeline terminals. Until February 1981 crude oil sale prices were controlled by regulations administered by the United States federal government. Natural gas production in the United States is usually sold pursuant to individually negotiated long-term contracts at the prices provided for in the contracts. Escalation of such prices is controlled by the United States Natural Gas Policy Act of 1978.

Information concerning capitalized costs and acquisition, exploration, development and production costs for Trend for 1982, 1981 and 1980 are set forth in Note 19, Supplementary Petroleum Information to the combined financial statements of the Inspiration Resources Group.

Trend Indonesian Marketing Agreement

Trend, through a subsidiary, has entered into an agreement (the “Marketing Agreement”), effective January 1, 1981, with C. Itoh International Petroleum Co. (Hong Kong), Ltd. (“Itoh”) to sell to Itoh all the oil to which Trend is entitled under the Production Sharing Contract, after satisfying its portion of the domestic market obligation of the Salawati Joint Venture. The remaining partners in the Salawati Joint Venture have entered into parallel agreements in substantially the same form with Itoh. The entire entitlement of the Salawati Joint Venture under the Production Sharing Contract, after satisfaction of the domestic market obligation, averaged approximately 14,845 barrels per day for 1982.

The Marketing Agreement has a primary term of 3 years and is extendable at Trend’s option for an additional two years. If so extended, the Marketing Agreement will automatically be renewed at the end of the fifth year for successive one year terms, unless terminated earlier by either Trend or Itoh. All payments under the Marketing Agreement are made in United States dollars outside Indonesia and, accordingly, are not subject to Indonesian foreign exchange regulations.

Trend’s Indonesian oil production is shipped through the Kasim Marine Terminal.

Drilling Activity and Results

The following table sets forth the oil and gas wells drilled and completed by Trend for each of the periods indicated:

	Year Ended December 31,									
	1982		1981		1980		1979		1978	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
United States:										
Exploratory										
Oil	2	0.4	13	3.7	13	7.2	5	2.2	1	0.1
Gas	1	0.1	8	1.2	16	5.1	4	1.0	6	3.4
Dry	13	3.5	57	24.3	48	17.3	15	5.5	17	4.8
Total	16	4.0	78	29.2	77	29.6	24	8.7	24	8.3
Development										
Oil	14	4.6	25	5.0	10	3.0	2	0.7	26	2.4
Gas	2	0.2	2	0.1	11	4.4	30	10.2	—	—
Dry	4	1.0	6	1.8	10	4.4	8	2.5	3	0.2
Total	20	5.8	33	6.9	31	11.8	40	13.4	29	2.6
Total										
Oil	16	5.0	38	8.7	23	10.2	7	2.9	27	2.5
Gas	3	0.3	10	1.3	27	9.5	34	11.2	6	3.4
Dry	17	4.5	63	26.1	58	21.7	23	8.0	20	5.0
Total	36	9.8	111	36.1	108	41.4	64	22.1	53	10.9
Canada:										
Exploratory										
Oil	—	—	—	—	1	0.1	1	1.0	—	—
Gas	—	—	—	—	—	—	—	—	2	0.3
Dry	—	—	1	0.5	1	0.2	2	1.1	—	—
Total	—	—	1	0.5	2	0.3	3	2.1	2	0.3
Development										
Oil	4	0.1	—	—	1	1.0	—	—	—	—
Gas	—	—	—	—	—	—	—	—	—	—
Dry	—	—	—	—	—	—	—	—	—	—
Total	4	0.1	—	—	1	1.0	—	—	—	—
Total										
Oil	4	0.1	—	—	2	1.1	1	1.0	—	—
Gas	—	—	—	—	—	—	—	—	2	0.3
Dry	—	—	1	0.5	1	0.2	2	1.1	—	—
Total	4	0.1	1	0.5	3	1.3	3	2.1	2	0.3

...continued

continued...

Year Ended December 31,										
1982		1981		1980		1979		1978		
Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Indonesia and Other:										
Exploratory										
Oil	—	—	—	—	—	1	0.3	1	0.3	
Gas	—	—	—	—	1	0.3	—	—	—	
Dry	3	0.8	1	0.3	5	1.4	—	—	3	0.8
Total	3	0.8	1	0.3	6	1.7	1	0.3	4	1.1
Development										
Oil	32	8.6	26	7.0	18	4.9	25	6.8	21	5.7
Gas	—	—	—	—	—	—	—	—	—	
Dry	—	—	2	0.5	—	—	1	0.3	—	—
Total	32	8.6	28	7.5	18	4.9	26	7.1	21	5.7
Total										
Oil	32	8.6	26	7.0	18	4.9	26	7.1	22	6.0
Gas	—	—	—	—	1	0.3	—	—	—	—
Dry	3	0.8	3	0.8	5	1.4	1	0.3	3	0.8
Total	35	9.4	29	7.8	24	6.6	27	7.4	25	6.8
Total Wells:										
Exploratory										
Oil	2	0.4	13	3.7	14	7.3	7	3.5	2	0.4
Gas	1	0.1	8	1.2	17	5.4	4	1.0	8	3.7
Dry	16	4.3	59	25.1	54	18.9	17	6.6	20	5.6
Total	19	4.8	80	30.0	85	31.6	28	11.1	30	9.7
Development										
Oil	50	13.3	51	12.0	29	8.9	27	7.5	47	8.1
Gas	2	0.2	2	0.1	11	4.4	30	10.2	—	—
Dry	4	1.0	8	2.3	10	4.4	9	2.8	3	0.2
Total	56	14.5	61	14.4	50	17.7	66	20.5	50	8.3
Grand Total										
Oil	52	13.7	64	15.7	43	16.2	34	11.0	49	8.5
Gas	3	0.3	10	1.3	28	9.8	34	11.2	8	3.7
Dry	20	5.3	67	27.4	64	23.3	26	9.4	23	5.8
Total	75	19.3	141	44.4	135	49.3	94	31.6	80	18.0

An exploratory well means a well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir or to extend a known reservoir. All other wells are "development wells".

A dry well is an exploratory or a development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well. A productive well is an exploratory or a development well that is not a dry well. The term "completion" refers to the installation of permanent equipment for the production of oil or gas, or, in the case of a dry hole, to the reporting of abandonment to the appropriate agency. The number of wells drilled refers to the number of wells completed at any time during the fiscal year, regardless of when drilling was initiated.

Exploration and Capital Expenditures

The following table summarizes the expenditures made by Trend during the periods indicated for the acquisition of oil and gas rights, exploration costs and development costs:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(\$US in thousands)				
United States:					
Acquisition of oil and gas rights	\$ 5,243	\$25,220	\$ 5,923	\$ 1,461	\$ 167
Exploration costs	6,605	24,311	15,524	4,628	2,921
Development costs	3,544	7,619	6,160	2,288	215
Total United States	<u>15,392</u>	<u>57,150</u>	<u>27,607</u>	<u>8,377</u>	<u>3,303</u>
Canada:					
Acquisition of oil and gas rights	—	—	38	204	4
Exploration costs	24	41	13	220	127
Development costs	243	242	485	235	48
Total Canada	<u>267</u>	<u>283</u>	<u>536</u>	<u>659</u>	<u>179</u>
Indonesia and Other:					
Acquisition of oil and gas rights	—	3,000	—	—	—
Exploration costs	8,295	1,268	1,023	305	1,135
Development costs	5,581	4,319	2,095	1,895	1,908
Total International	<u>13,876</u>	<u>8,587</u>	<u>3,118</u>	<u>2,200</u>	<u>3,043</u>
Total expenditures before major land disposals	<u>29,535</u>	<u>66,020</u>	<u>31,261</u>	<u>11,236</u>	<u>6,525</u>
Land disposals	<u>11,490</u>	<u>9,567</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net expenditures	<u>\$18,045</u>	<u>\$56,453</u>	<u>\$31,261</u>	<u>\$11,236</u>	<u>\$6,525</u>

Trend's exploration and development programs were reduced in 1982 from 1981 levels because lower crude prices and natural gas market curtailment, combined with the increased cost of debt service, adversely affected working capital from operations. The total exploration and development expenditure budgeted for 1983 is \$US37.5 million, which has increased from \$US29.5 million in 1982. This increase is a result of Trend's need to fulfill previously deferred contractual commitments required to preserve its interest in certain properties.

While its primary exploration focus in the United States is the eastern part of the State of Texas where it has assembled a substantial land position in prospects supported by seismic surveys, Trend also intends, in the near term, to actively evaluate its substantial landholdings in the States of Oklahoma, Louisiana and Arkansas and in the Rocky Mountain region. These exploration efforts will be directed towards oil prospects with significant reserve potential and towards major gas/condensate prospects where market facilities and capacity are in place. Trend expects to continue being quite active in Indonesia; however, it does not anticipate further exploration of its Canadian acreage.

Investment in Adobe

Trend accounts for its 27% equity interest in Adobe on a cost basis as Trend does not exercise a significant influence over the affairs of Adobe. Adobe, headquartered in Midland, Texas, is engaged in the business of oil, gas and mineral exploration, development and production, including ownership of an inventory of oil, gas and mineral leasehold interests and royalty interests, natural gas processing, oil refining, producing, processing and marketing coal, and uranium exploration.

At May 2, 1983 the closing price for Adobe common shares on the American Stock Exchange was \$US18.125. The total outstanding Adobe common shares at December 31, 1982 was 15,951,475 and Trend owned 4,385,062 of Adobe common shares.

Employee Relations

At December 31, 1982, Trend employed approximately 430 full time employees, none of whom belonged to a union. Of these persons 340 were employed in Indonesia. Trend considers its labour relations to be satisfactory.

Environmental Protection

Exploration for and development and production of oil and gas is subject to environmental regulations in all countries in which Trend is active. While the existence of such legislation tends to increase operating and capital costs, Trend does not anticipate any problems in complying with existing and proposed legislation.

Outlook

In mid-March 1983, a new official benchmark price for oil of \$US29 per barrel was adopted by OPEC. Trend does not expect that this reduction in the official benchmark price will have a significant adverse impact upon its Indonesian operations in the immediate future. Although no assurance can be given that the new benchmark price will be maintained, the cost recovery feature of the Production Sharing Contract provides Trend with some protection against the effect of lower petroleum prices in Indonesia. Trend has not been advised that a "quota" has been or will be set for production from its Indonesian operations. Because production levels are declining naturally over the life of the Indonesian oil fields in which Trend has an interest, Trend also does not anticipate that the imposition of production quotas would have a significantly adverse impact upon it.

In the United States, crude oil prices have stabilized after the establishment of the new benchmark price. The demand for gas, however, continues to be soft and Trend is presently producing at about 66% of its capacity, with no improvement expected in the near future. All of its oil production is readily marketable and no market restriction is expected.

The decrease in oil exploration activity has resulted in a reduction in the cost of goods and services employed in the oil industry. This will permit Trend to evaluate more exploration projects which may reduce its overall exploration and development finding costs.

Agricultural Chemicals

The Group's agricultural chemicals business is conducted through Terra. Inspiration Resources acquired the 54.7% indirect interest held by HBMS in Terra and all the common stock held by the public in June 1981.

Terra was incorporated under the laws of the State of Delaware in 1964 as an agricultural chemicals producer, serving the market area of the upper midwestern United States. Terra has expanded its operations so that it now includes over 100 farm service centers in 15 states; a 25% interest in Oklahoma Nitrogen Co. (ONC), a partnership which operates an anhydrous ammonia plant in Oklahoma; and a 65% interest in Bison Nitrogen Products Co. (Bison), a partnership which produces nitrogen solutions and urea liquor from feedstocks provided by ONC.

Terra markets a full line of mixed fertilizers, crop protection chemicals, seed and other products to the agricultural community in the midwestern, southern and southwestern regions of the United States. Through its retail division, Terra markets equipment and services required for the application of its seed, crop protection and fertilizer products. Terra also manufactures ammonia and derivatives used in the production of inorganic fertilizers and animal-feed ingredients and purchases potash, phosphate and other agricultural chemicals from others for resale or the production of mixed fertilizers.

The following table sets forth selected financial statistics for Terra for the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(US\$ in thousands)				
Total revenue (1)	\$281,289	\$327,414	\$272,637	\$231,564	\$177,915
Operating profit (loss) (2)	(7,193)	15,931	23,862	10,231	2,701
Working capital	58,118	66,459	63,351	53,003	46,196
Identifiable assets	212,686	209,751	159,783	138,149	134,721
Long term debt (3)	35,482(4)	29,789	30,858	32,130	33,382

(1) Includes interest and other income, and net of freight and selling expenses.

(2) Operating profit (loss) before deduction of interest expense, corporate expenses, income taxes and royalties.

(3) Does not include 25% share of ONC's mortgage guaranteed by Terra. At December 31, 1982 the total principal amount of the mortgage outstanding was \$US64.4 million.

(4) Net of cash advanced and held in escrow under Industrial Revenue Bonds to be applied against debt incurred in constructing the headquarters in Sioux City, Iowa.

Marketing and Competitive Position

In 1982, within its overall trade area, Terra accounted for less than 10% of total agricultural chemical sales; however, within certain localized areas Terra's share of the market is substantially higher. Most of Terra's competitors are cooperatives or divisions of larger companies. Such competitors have greater total resources than Terra and are less dependent on earnings from crop protection chemical products. Terra markets its products through more than 100 retail outlets and also sells to other distributors through its wholesale division. Terra's retail division is organized into nine regions that operate the approximately 100 farm service centres. In addition to the sale of products, services provided at the retail outlets are marketed under the Terra's crop management program and include collection of soil samples for analysis, consultation as to crop nutrient requirements and the delivery and field spreading of the products sold.

Terra's wholesale division sells chemical fertilizers and nitrogen feed ingredients to retail distributors of fertilizers and to feed manufacturers, principally in the states of Iowa, Nebraska, Illinois, Kansas, Minnesota, South Dakota, Indiana, Ohio, Oklahoma, Texas, Missouri, Colorado, Arizona, New Mexico and Wisconsin.

In receiving and distributing materials to wholesale customers and retail outlets, Terra utilizes four major methods of transportation: barges, common carrier pipelines, railroad cars and tank cars, and common carrier trucks. During 1982, the Company operated 20 terminal storage locations strategically located in key market areas to assure efficient movement and seasonal availability of both dry products and fertilizer solutions.

Production

Terra's primary manufacturing facilities are located at Port Neal, Iowa. The Port Neal complex consists of five closely integrated plants for the production of ammonia, urea, nitric acid, ammonium nitrate and nitrogen fertilizer solutions. Ammonia, nitrogen fertilizer solutions and urea liquor are also produced at Woodward, Oklahoma at the chemical production facilities of ONC and Bison. ONC produces anhydrous ammonia, a portion of which Bison upgrades into nitrogen fertilizer solutions and urea liquor.

Chemical fertilizer products are produced in many forms with widely varied concentrations of the three primary plant nutrients—nitrogen, phosphate and potash. Many products combine two or all three of such nutrients in varying concentrations. The type of fertilizer used varies according to soil conditions and the nature of the crops being raised. Terra sells crop protection chemicals and nitrogen animal-feed ingredients, consisting of dry urea and urea liquor, which are used by feed manufacturers to produce complete mixed feeds.

The fertilizer business is subject to periods of overcapacity. When profits and returns are good, the industry has had the tendency to over expand, resulting in overcapacity and downward pressure on prices and profits. During the period between July 31, 1981 and December 31, 1982, approximately 36% of the ammonia capacity in the United States was shut down; recent startups have reduced shutdowns to 25% of the ammonia capacity in the United States. Terra's Port Neal plant has never been shut down because of lack of demand for the product because, in times of low demand, Terra has been able to reduce purchases of nitrogen products from third parties. However, no assurance can be given that sufficient reductions can be achieved to avert future plant shutdowns.

The agricultural chemicals business is by its nature seasonal, based upon the planting and harvest cycles. As a result, inventories must be built up in the first few months of the year to be available for seasonal sales. The resultant inventory build-ups require significant storage capacity. Inventory build-ups are financed by short-term borrowings which are retired with the proceeds of the accounts receivable arising from the sales of such inventory. In times of low demand, Terra can reduce purchases, thereby helping to alleviate the financing costs of carrying inventories.

The main raw material used by Terra in its manufacturing operations is natural gas, which is purchased from local natural gas distributors under long term contracts. The fertilizer industry, which is energy intensive, has been severely affected by escalating energy prices. Terra's cost of natural gas, which is the feedstock and process gas for ammonia production, increased an average of approximately 26% in 1982.

Although the supply of natural gas is subject to curtailment on a priority basis if total availability in an area runs low, the fertilizer industry has been given special consideration by the Federal Energy Regulatory Commission which puts it in a curtailment category just below such high priority consumer users as households, hospitals and small business heating. Because of large gas supplies in the United States, curtailments in recent years have been quite short at both Port Neal and Woodward. During periods of curtailment, Terra has the ability to substitute fuel oil for a portion of its gas requirements at both plants.

Anhydrous ammonia is used as the principal raw material for the production of nitrogen based chemical fertilizers and feed ingredients at both Port Neal and ONC, and any excess production is marketed by Terra in its manufactured form. Apart from natural gas, air and water, there are various chemicals and catalysts used in the manufacturing processes which are purchased from the basic manufacturers. Availability of these latter materials is considered adequate to meet production needs.

The following table sets forth annual production for each of the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(in tons)				
PORT NEAL:					
Anhydrous Ammonia.....	218,803	229,793	230,514	221,000	196,502
Urea Liquor.....	181,288	203,335	216,694	210,908	176,927
Urea Fertilizer—Solid.....	32,409	47,954	47,300	37,788	9,164
Urea Feed—Solid.....	43,859	49,715	56,738	62,967	60,290
Ammonium Nitrate Liquor.....	155,503	156,080	156,772	147,904	139,019
Nitric Acid.....	125,125	126,670	127,503	121,576	115,800
Ammonium Nitrate Prills.....	31,051	41,631	44,322	34,929	28,241
28% Nitrogen Solution.....	316,472	295,127	306,101	306,899	272,150
WOODWARD: (1)					
Anhydrous Ammonia.....	91,836	113,216	119,142	100,759	84,954
Urea Liquor.....	47,172	57,572	61,741	50,358	18,649
Ammonium Nitrate Liquor.....	55,043	67,033	71,161	57,957	22,156
Nitric Acid.....	45,135	54,967	58,352	47,525	18,168
28% Nitrogen Solution.....	139,791	170,242	180,726	147,193	56,269

(1) Adjusted to reflect Terra's interests.

Properties

Terra maintains headquarters in Sioux City, Iowa. Construction of a new head office complex in Sioux City will be completed in 1983, financed largely with funds from Industrial Development Revenue Bonds, an Urban Development Grant and the City of Sioux City. Terra's manufacturing facilities are located on approximately 80 acres of a 1,922 acre tract which it owns at Port Neal, Iowa, located on the Missouri River near its headquarters in Sioux City.

Terra also maintains more than 100 farm service centers in its retail marketing area, most of which are owned. Buildings at the remaining locations are occupied pursuant to leases having varying durations up to 1995. Wholesale operations are conducted from Terra's head office and two regional offices.

ONC and Bison own their respective production facilities. The ONC plant is subject to a mortgage, the principal amount outstanding at December 31, 1982 was \$US64.4 million, of which 25% is guaranteed directly by Terra. In addition, Terra leases storage space for its liquid and dry fertilizers at 15 locations in 8 midwest states with an average remaining lease life of 18 months from December 31, 1982.

Capital Expenditures

The capital expenditures for Terra during the past five years were \$US13.1 million, \$US6.4 million, \$US6.2 million, \$US3.0 million and \$US9.5 million for 1982, 1981, 1980, 1979 and 1978, respectively. Terra plans to spend approximately \$US13 million in 1983.

Employee Relations

At December 31, 1982, Terra employed approximately 960 full-time and part-time employees, none of whom belongs to a union. At March 31, 1983, the total number of employees was about 1,020. During its peak season, Terra employs additional part-time employees. Terra considers its employee relations satisfactory.

Environmental Protection

The United States federal Environmental Protection Agency has published guidelines for effluent limitations on the waste water discharged by urea plants. Terra has been issued a permit which specifies the allowable effluent quality for the Port Neal plant by the Iowa Department of Environmental Quality under the National Pollutant Discharge Elimination System (NPDES) and which expires October 31, 1984. Terra has been and continues to be in

compliance with the NPDES permit. Terra has installed emission control systems at Port Neal to bring urea and ammonium nitrate particulate emissions into conformity with the requirements of the Clean Air Act. These systems have been tested and certified to meet the regulatory requirements. Bison is also subject to the provisions of the Clean Air Act, and its plant systems have been certified to meet the regulatory requirements. Water discharge is contained within the Bison plant and an appropriate permit has been obtained to operate evaporation ponds. At the ONC plant, effluent water is discharged into the North Canadian River under an NPDES permit which is due to expire March 22, 1986. Capital expenditures for environmental purposes have totalled about \$US1.2 million in the past five years.

Outlook

In early 1983, the United States government introduced a payment-in-kind ("PIK") farm program which is intended to reduce surplus grain in storage for 1983. Current data indicates this program will subsequently reduce the number of acres under cultivation in 1983 and, as a result, is expected to have a negative effect on sales volumes, prices and earnings for agricultural chemical companies in 1983. Terra is unable to predict with any certainty the extent of this negative effect on its sales, realized prices and earnings, but anticipates significantly reduced sales and revenues and a greater loss in 1983 than experienced in 1982. No assurance can be given that the PIK program or a similar program will not be introduced by the United States government for 1984.

Coal

The Group's coal business is conducted through wholly-owned subsidiaries of Inspiration Coal, a corporation which was formed in November 1980 with the objective of investing in the United States coal industry. Inspiration Coal provides management and financial services to its wholly-owned operating subsidiaries which are grouped in four main areas in the southeastern region of the State of Kentucky and the western region of the State of Virginia. In this discussion, references to Inspiration Coal in the context of operations means only the wholly-owned operating subsidiaries and references to Inspiration Coal in the context of management, investment and financial matters means Inspiration Coal Inc., the corporation.

During 1981 and 1982, Inspiration Coal made several significant acquisitions of coal operations. In January 1981, Inspiration Coal acquired Bailey Mining Company, Incorporated ("Bailey"), a producer of low sulphur, low ash, premium steam coal for approximately \$US8.6 million. In July 1981, the Sovereign Coal Group, Inc. ("Sovereign") and its subsidiary, Harman Mining Corporation ("Harman"), were acquired for \$US151.6 million, including redundant working capital of \$US59.6 million resulting in Sovereign and Harman being acquired for \$US92 million. Sovereign produces primarily low sulphur, high fluidity, premium coking coal and some high quality steam coal. In addition, in February 1982, Inspiration Coal purchased the Wheelwright coal operation ("Wheelwright") adjoining the Bailey operation for \$US26.0 million. Wheelwright is expected to enhance the value of Bailey since it is adjacent to the Bailey plant and has reserves of comparable quality. The acquisitions increased Inspiration Coal's annual production capacity to more than 3.7 million tons and have positioned Inspiration Coal to be a major supplier of high grade steam and coking coal to the United States and export markets.

The following table sets forth selected financial statistics for Inspiration Coal for 1981 and 1982:

	Year ended December 31,	
	1982 (1)	1981 (2)
	(\$US in thousands)	
Total revenue (3)	\$ 72,047	\$ 50,001
Operating profit (loss)(4).....	(5,397)	1,767
Working capital.....	12,788	9,760
Identifiable assets	146,781	117,343
Long term debt	62,086	260

(1) Does not include figures for Wheelwright prior to acquisition date.

(2) Does not includes figures for Sovereign and Harman prior to acquisition date.

(3) Including interest and other income, and net of selling expenses.

(4) Operating profit (loss) before deduction of interest expense, corporate expenses, income taxes and royalties.

In February 1983, Inspiration Coal announced that it was temporarily idling the metallurgical coal operations at its Harman Mining division. This action was taken as a cost containment measure. The book value of Harman's total assets at December 31, 1982 was approximately \$US58.0 million. Total revenues and net loss for Harman were \$US27.9 million and \$US4.8 million, respectively, for the year ended December 31, 1982.

During the first quarter of 1983 Inspiration Coal's other coal mining operations were operating at 22% of capacity because of the depressed market for coal and overall were incurring operating losses before interest expense. Although immediate market improvement is not anticipated, Inspiration Coal will maintain its production facilities in a normal state of repair until coal markets improve. Financial assistance will be provided by Inspiration Resources as it is necessary.

Concurrent with the Harman Mining division idling, Inspiration Coal decreased staff to reduce costs and significantly restructured senior management to improve management efficacy.

Mineral Properties and Reserves

The numerous operations of Inspiration Coal are grouped into four major operations: Bailey, Wheelwright, Harman and Sovereign.

The Bailey operations are located in the southeastern region of the State of Kentucky and consist of approximately 3,900 acres of leased mineral rights, a jig preparation plant with a capacity of 750,000 clean tons per annum and related assets. A premium steam coal is produced from these operations. Transportation from the mines to the preparation plant is by truck. The cleaned coal is shipped by rail either to domestic consumers or to a port for trans-shipment by water.

Wheelwright is located in the southeastern region of the State of Kentucky and adjoins the Bailey operations and consists of approximately 28,400 acres of owned mineral rights, approximately 4,100 acres of leased mineral rights and a jig preparation plant with a capacity of 1.2 million clean tons per annum. Wheelwright primarily produces a clean coal similar in quality to Bailey's. In addition, some raw coal is produced for sale. Transportation from the mines to the preparation plant is by truck. The cleaned coal is shipped by rail either to domestic consumers or to a port for trans-shipment by water.

The Harman operations, which include Clintwood, are located in the western region of the State of Virginia and consist of approximately 6,600 acres of owned mineral rights, approximately 13,000 acres of leased mineral rights and a heavy media preparation plant with a capacity of 1.2 million clean tons per annum. Harman produces a clean coking coal and Clintwood produces raw coal. Clintwood ships raw coal directly to customers by rail. Harman transports its coal by truck to the preparation plant for cleaning. As referred to previously it was announced in February 1983 that the Harman Clintwood operations would be idled. The operations were idled on March 4, 1983.

The Sovereign operations, which also include Jamboree and Majestic Collieries, are located in the southeastern region of the State of Kentucky and consist of approximately 5,600 acres of owned mineral rights, approximately 9,500 acres of leased mineral rights and a jig preparation plant with a capacity of 468,000 clean tons per annum. Sovereign produces a clean coking coal and Majestic Collieries produces raw coal. Transportation from the mines to the preparation plant is by truck. The cleaned coal is shipped by rail either to domestic customers or to a port for trans-shipment by water.

Inspiration Coal has approximately 87 million recoverable tons of measured and indicated coal reserves. These reserves have been calculated using a minimum net coal thickness of 28 inches. All of these reserves are above-drainage. The following table sets forth a summary of reserves by operation as prepared by Inspiration Coal's and HBMS' geologists as at December 31, 1982:

	Reserves (1)		
	Measured	Indicated	Total
		(tons in thousands)	
Bailey	2,297	4,920	7,217
Wheelwright.....	17,531	21,365	38,896
Harman	18,025	7,409	25,434
Sovereign	14,187	1,505	15,692
Total	<u>52,040</u>	<u>35,199</u>	<u>87,239</u>

- (1) In 1982, standard parameters for calculating reserves based on U.S. Bureau of Mines criteria were used to measure the coal reserves of the four Inspiration Coal operations for the first time. Measured reserves are within 1,320 feet, and indicated reserves are between 1,320 and 3,960 feet, of a measured coal section. Minimum net coal thickness is 28 inches.

Sovereign Coal Sales (formerly Sovereign Pocahontas Co.) has subleased 2 million tons of proven reserves on the Buckhorn property and 66.5 million tons of proven and probable reserves on the Closterman property to other companies. Proven reserves for these properties are within 2,000 feet of a measured intersection and probable reserves are defined as being more than 2,000 feet but less than 4,000 feet from a measured coal section. There is a potential dispute as to the validity of a purported lease of 1.8 million tons of measured and indicated reserves belonging to Wheelwright Mining Inc. These reserves are not included in the above tabulation. Inspiration Coal does not expect the payment of any significant royalties in the near future as these will depend upon the lessees placing these properties in production.

Production

The following table sets forth the annual tonnage produced from the four main operations indicated for the periods indicated:

	Year Ended December 31,				
	1982	1981	1980	1979	1978
			(tons)		
Bailey	258,764	306,710	326,083	249,204	N/Av
Wheelwright	425,384	670,933	697,005	720,991	540,860
Harman	639,517	864,123	1,030,307	1,060,993	561,686
Sovereign	425,986	562,092	826,555	904,663	505,233
Total(1)	1,749,651	2,403,858	2,879,950	2,935,851	N/A

(1) Inspiration Coal's share of coal produced from these operations since their acquisition was approximately 1.2 million tons in 1981, and all production in 1982.

N/Av = Not Available

N/A = Not Applicable

The following table outlines the general characteristics of coal produced by the four operations:

	Bailey	Wheelwright	Harman	Sovereign
Type of coal	Steam	Steam	Coking	Coking
BTU	13,000	13,400	13,500	13,500
Sulphur	0.9%	0.9%	0.9%	0.7%
Ash	8.0%	5.5%	6.0%	6.0%
Moisture	6.0%	6.0%	8.0%	6.0%
Volatility	36.0%	36.0%	29.5%	34.0%
Free Swelling Index (F.S.I.)	4-5	5	8+	7+
Fluidity (dial divisions per minute)	—	—	28,000	15,000

All of the mining operations are conducted using a combination of modern, conventional and continuous mining methods with modern equipment.

Marketing

Inspiration Coal marketing and sales personnel market all coal produced by Inspiration Coal for the spot market and also market coal produced by unrelated companies.

Inspiration Coal's coal is sold in three principal markets: United States industrial, United States public utility and foreign coking coal markets (i.e. steel or coke manufacturers located in Japan, Korea, South America and Western Europe). Coal destined for the foreign coking coal market is sold by Inspiration Coal domestically for ultimate shipment abroad. In 1982, three customers, Thyssen Carbometals, A.T. Massey and Lansing Board of Water and Light, each purchased more than 10% of the total sales of Inspiration Coal. Such sales involved both contract and spot market purchases.

The following table sets forth the percentage sales of coal produced for domestic and export markets in 1982:

	Domestic Sales		Export Sales		Total Sales	
	tons	%	tons	%	tons	%
Sovereign/Harman (1)	226,000	21.2	840,000	78.8	1,066,000	100.0
Wheelwright/Bailey	605,000	93.8	40,000	6.2	645,000	100.0
Total	831,000	48.6	880,000	51.4	1,711,000	100.0

(1) Includes 873,000 tons of coking coal. The balance of the Sovereign/Harman sales and all of the Wheelwright/Bailey sales were steam coal.

The coal industry is highly price competitive. A major component in any company's overall competitive position is the transportation cost for the delivery of its product to market. Transportation costs typically represented 45-55% of the selling price (F.O.B. mine) of eastern U.S. coal in 1982; therefore, the location of a coal operation with respect to major markets and inexpensive transportation facilities is important. Inspiration Coal does not suffer any competitive disadvantage in comparison to other U.S. producers of premium quality coal, as all such coal is only produced domestically in the same Appalachian region where Inspiration Coal's operations are located.

The economic recession has substantially reduced demand for durable consumer goods such as cars. In turn, this has dramatically decreased demand for domestic steel and, to a lesser extent, foreign steel. The reduced steel demand caused coking coal demand to decline by approximately 40% in 1982. Demand for steam coal by electric utilities also stagnated during the year. This, combined with weak coking coal demand, seriously reduced spot market volumes. Inspiration Coal currently sells most of its production on a spot market basis. Despite the decrease in demand for its products, coal industry production remained high in 1982, resulting in a rapid inventory buildup, increased competition and a substantial decline in spot market prices. As a result of lower sales prices and volumes, at December 31, 1982, only 36 of Inspiration Coal's 55 mines were operating and production was reduced substantially from that in 1981.

Capital Expenditures

Capital expenditures in 1982 and 1981 were \$US4.8 million and \$US1.6 million, respectively. Planned capital expenditures for 1983 are \$US500,000 and will be used to maintain production equipment.

Employee Relations

At December 31, 1982, the operating subsidiaries of Inspiration Coal employed approximately 330 persons (union and non-union) on a full-time basis. All unionized company employees of these operating companies are represented by the United Mine Workers of America (UMWA) which bargains collectively for them on an industry-wide basis. In addition, the independent contractors who work in the Inspiration Coal mines and who are paid directly by Inspiration Coal for the coal they produce are members of the UMWA.

The UMWA contract with the industry-wide multi-employer groups, of which Inspiration Coal is a member, expired on March 27, 1981. Subsequent to the expiration of this agreement, the United States coal industry had a 71-day strike that resulted in a new wage agreement on June 7, 1981. The strike had a severe impact on earnings in the industry during 1981. The new wage agreement, which expires September 30, 1984, provides for, among other things, a wage increase of 34% over a period of three years.

Environmental Matters

The operations are subject to government imposed environmental regulations. The cost of complying with the various standards are to a large extent absorbed in operational costs. However, some major expenditures will require capitalization of costs in the estimated amount of \$US2.7 million for the 1983-1985 period.

Outlook

The outlook for coal sales for the balance of 1983 remains depressed. The demand for energy in all sectors is being constrained by the low level of manufacturing and general economic activity. However, United States coal production has reduced significantly to production rates which, if annualized, are now below anticipated demand for 1983.

As a result of reduced production rates below demand levels, stockpiles held by coal consumers have been declining slightly. This suggests that sales activity could increase. However, management believes that there is little probability of its being able to raise prices or the volume of sales at least for the next two quarters.

Supplementary Financial Information

Segment, Geographic and Export Data concerning HBMS and the Inspiration Resources Group, respectively, is set forth immediately following the Notes to the HBMS Consolidated Financial Statements. Selected Financial Data and Selected Quarterly Consolidated Financial Data (unaudited) concerning HBMS is set forth following the Notes to the HBMS Consolidated Financial Statements.

Share Capital

The present share capital of HBMS consists of an unlimited number of HBMS Common Shares of which, as of May 2, 1983, 10,231,044 were issued and outstanding. The HBMS Shareholders are entitled to one vote per HBMS Common Share held. For a description of the terms and conditions of the HBMS Special Shares to be issued under the Arrangement, see "THE REORGANIZATION—Description of HBMS Special Shares and Inspiration Resources Common Shares—HBMS Special Shares".

Trading Pattern of HBMS Common Shares

The following table summarizes the market price ranges and volumes of trading of HBMS Common Shares on The Toronto Stock Exchange and the New York Stock Exchange for the periods indicated:

	HBMS					
	The Toronto Stock Exchange			New York Stock Exchange		
	High	Low	Volume	High	Low	Volume
		(\$Cdn)			(\$US)	
1981						
January.....	\$37.38	\$31.88	82,050	\$31.25	\$26.88	98,600
February.....	32.13	29.38	167,174	26.63	24.63	121,500
March.....	34.63	30.00	64,995	29.38	25.00	77,500
April.....	35.00	30.88	37,491	29.88	26.25	108,600
May.....	31.25	28.00	216,017	26.38	23.50	186,900
June.....	32.75	30.00	106,697	27.00	25.00	44,700
July.....	31.00	28.00	272,678	25.88	22.75	66,000
August.....	30.75	27.63	76,414	24.88	22.88	82,800
September.....	28.25	22.88	86,454	23.38	19.13	48,300
October.....	24.00	21.88	59,378	20.25	18.25	24,700
November.....	24.25	21.13	57,230	20.50	17.75	76,100
December.....	25.38	23.88	75,326	21.50	20.25	79,800
1982						
January.....	\$25.00	\$21.63	99,059	\$20.88	\$18.50	53,200
February.....	22.00	17.50	28,883	18.38	14.50	24,800
March.....	20.50	17.75	117,371	16.88	13.75	281,600
April.....	18.75	16.63	156,906	15.25	14.00	16,900
May.....	17.13	15.38	98,077	14.50	12.75	63,600
June.....	16.00	13.50	93,957	12.75	10.63	43,800
July.....	16.50	13.75	49,300	12.88	10.88	22,700
August.....	15.63	12.75	90,817	12.50	10.25	26,300
September.....	16.75	13.63	379,408	13.38	11.00	32,400
October.....	18.25	13.75	150,904	14.88	11.00	57,100
November.....	17.75	15.88	133,242	14.50	12.88	43,300
December.....	16.88	13.50	85,600	13.50	10.88	46,000
1983						
January.....	\$20.63	\$16.13	198,877	\$16.50	\$13.50	62,000
February.....	23.38	20.00	195,072	19.25	16.50	48,800
March*.....	21.50	17.38	183,676	17.50	14.25	102,800
April.....	19.88	17.25	211,504	16.38	14.13	23,900
May (through May 11, 1983)** ..	22.25	19.63	219,103	18.50	15.88	20,200

*On March 4, 1983 HBMS announced the Reorganization.

**On May 11, 1983 the closing sale price of the HBMS Common Shares on The Toronto Stock Exchange was \$Cdn 22 and on the New York Stock Exchange was \$US18.

Dividend Record

HBMS has declared the following per share dividends on the HBMS Common Shares during each of the five year periods ending December 31, 1982:

Quarter	Cash or Cash Equivalent of Stock Dividends Declared				
	1982	1981	1980	1979	1978
1st	\$0.10	\$0.30	\$0.30	\$0.10	—
2nd	—	0.30	0.30	0.20	—
3rd	—	0.30	0.30	0.20	—
4th	0.20*	0.15	0.30	0.30	—
Total	<u>\$0.30</u>	<u>\$1.05</u>	<u>\$1.20</u>	<u>\$0.80</u>	<u>\$—</u>
*Stock dividend					

Directors and Officers

The directors of HBMS, their residences, ages, terms of directorship, principal occupations, business experience during the past five years and certain other directorships are shown in the table under "INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS". It is the intention of the management of HBMS that the directors elected at the Meeting will continue to serve as directors of HBMS following the Reorganization.

The names, ages and positions of all of the executive officers of HBMS as of May 2, 1983 are listed below along with their business experience during the past five years. Officers are appointed annually by the Board of Directors at the meeting of directors immediately following the annual meeting of HBMS Shareholders. There are no family relationships among these officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected.

W.A. Atkinson (39)	Comptroller since June 1979; and prior thereto, he was Manager, Financial Planning.
S.R. Horne (51)	Vice-President, Investments since January 1976. He has also been president of Tombill Mines Limited since June 1981.
D.H. Houston (51)	Vice-President, Taxation since January 1981; from January 1979 to December 1980, he was Director of Taxation; and prior thereto, he was Manager, Corporate Finance and Taxation.
Dr. J.B. Howkins (51)	Executive Vice-President since December 1982. From January 1982 to December 1982, he was Senior Vice-President, Corporate and Exploration; from November 1978 to December 1981, he was Senior Vice-President, Exploration; and prior thereto, he was President and Chief Executive Officer of Inspiration Copper. He is also a Director of Inspiration Copper and of Terra.
S.A. Kozel (36)	Assistant Secretary since January 1975.
M.B. O'Shaughnessy (40)	Senior Vice-President, Marketing since May 1980. From October 1978 to May 1980, he was President of Kennecott Sales Corporation; and prior thereto, he was Vice-President of Kennecott Minerals Company. From May 1977 to October 1978, he was General Manager of Kennecott Refining Corporation.
D.W. Perks (41)	Chief Financial Officer, Vice-President, Finance and Treasurer since February 1982; from June 1980 to January 1982, he was Vice-President, Finance. From April 1979 to June 1980, he was Vice-President, Finance, Secretary and Treasurer of F.P. Publications Limited; and prior thereto, he was Treasurer thereof. He is also a Director of Trend.
R.F. Richards (53)	Chairman of the Board, President and Chief Executive Officer of HBMS, Chairman of the Board and Chief Executive Officer of Inspiration Resources and a director and member of the Executive Committee of Minorco since December 1982. Prior thereto, he was Executive Vice-President of Citibank, N.A. He is also a Director and Chairman of the Board of Inspiration Copper of Terra, of Trend Exploration Limited, and of Trend.
H.S. Schwartz (54)	President, Canadian Metals since August 1979. From March 1979 to August 1979, he was Senior Vice-President, Metallurgy; and prior thereto, he was a Consulting Metallurgist, Coal Division of AAC.

C.K. Taylor, Q.C. (51) Senior Vice-President, Secretary and General Counsel since January 1982; and prior thereto, he was Senior Vice-President, Administration, Secretary and General Counsel. He is also a Director of Inspiration Copper, Terra, Trend Exploration Limited and Trend.

Security Ownership

As of May 2, 1983, Mincan (P.O. Box 28, Toronto-Dominion Centre, Toronto, Ontario, M5K 1B8) directly owned 4,487,540 HBMS Common Shares, representing 43.86% of the total issued and outstanding shares of HBMS. Mincan has sole voting and investment power over the shares held by it. To the knowledge of HBMS, no other person beneficially owns, or exercises control or direction over, more than 5% of the outstanding HBMS Common Shares. All of the outstanding voting shares of Mincan are owned by Minorco. AAC, De Beers and Charter own approximately 41%, 22% and 10%, respectively, of the outstanding voting shares of Minorco. See "INFORMATION CONCERNING HBMS—The Business of HBMS and the Inspiration Resources Group" for a description of the beneficial owners of the voting shares of Minorco.

As of May 2, 1983, the directors of HBMS individually, and the directors and officers of HBMS as a group, beneficially own, or exercise control or direction over, shares of AAC, Charter, Minorco and HBMS as follows:

<u>Name</u>	<u>Title of Class</u>	<u>Number of Shares Beneficially Owned</u>
J.N. Clarke	AAC Ordinary	20,500
	Charter Ordinary	11,812
	Minorco Ordinary	25
H.P. Crawford, Q.C.	HBMS Common Shares	101
E.P. Gush	AAC Ordinary	30,700
R.H. Jones	HBMS Common Shares	101
A.T. Lambert	HBMS Common Shares	6,079
J.R.B. Phillimore	AAC Ordinary	4,300
	Minorco Ordinary	12,500
G.W.H. Relly	AAC Ordinary	83,000
	Charter Ordinary	500
	HBMS Common Shares	303
A. Sweatman, Q.C.	HBMS Common Shares	50
R.F. Richards	HBMS Common Shares	500
J.D. Taylor, Q.C.	AAC Ordinary	9,000
	HBMS Common Shares	1,367
Directors and Officers as a group (15 persons)	AAC Ordinary	147,500
	Charter Ordinary	12,312
	Minorco Ordinary	12,525
	HBMS Common Shares	10,501

As of May 2, 1983, each of the directors individually and the directors and officers as a group beneficially owned less than 1% of the total issued and outstanding shares of each of AAC, Charter, Minorco and HBMS. Each of the directors and officers of HBMS had sole voting power and sole investment power over the shares referred to above, except for 48 HBMS Common Shares owned by the wife and children of C.K. Taylor, Q.C., included above in the category of HBMS Common Shares beneficially owned by the directors and officers of HBMS as a group.

Management Remuneration

The table set forth under "INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS—Management Remuneration" presents the aggregate remuneration paid during 1982 for services in all capacities rendered to HBMS and its subsidiaries by all of the directors of HBMS who are not officers; by each of the five highest paid directors or officers of HBMS as a group earning in excess of \$Cdn 40,000; and the totals of all such remuneration to all the directors and officers of HBMS as a group.

Transactions with Management and Others

A description of the transactions with the management of HBMS and others is set forth in “INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS—Transactions with Management and Others”.

Material Contracts

Except for contracts made in the ordinary course of business, the only material contracts entered into by HBMS within the two years preceding the date hereof are the following:

1. Churchill River Power Company Agreement dated November 19, 1982 with Saskatchewan Power Corporation and the Province of Saskatchewan with respect to disposition of the Island Falls Power Plant.
2. Exchange Agreement dated April 12, 1982 among Francana, HBMS, Mincan and 114635 Canada Inc. providing for, among other things, the transfer by Mincan to HBMS of common shares of Francana for consideration specified therein.
3. Hudbay-Sceptre Agreement dated April 12, 1982 among HBMS, Mincan and Sceptre Resources Limited (“Sceptre”) providing for certain covenants and agreements between Mincan, HBMS and Sceptre with respect to the disposition of shares of Francana.
4. Credit agreements, contracts and other agreements are set forth in Notes 8(b) and 9 to the HBMS Consolidated Financial Statements.
5. The Arrangement Agreement attached hereto as Appendix 3.
6. The Inspiration Resources Agency Agreement attached as Schedule C to the Arrangement Agreement which is attached hereto as Appendix 3 (to be entered into on the Effective Date).
7. The Minorco Commitment Letter dated May 12, 1983 among Minorco, HBMS and Inspiration Resources.

Copies of the foregoing contracts may be inspected at the registered office of HBMS, 28th Floor, Toronto-Dominion Bank Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1B8 during normal business hours, until 30 days after the Effective Date.

Auditors, Transfer Agents and Registrars

The auditors of HBMS are Deloitte Haskins + Sells, 59th Floor, First Canadian Place, Toronto, Ontario, M5X 1H4, Canada. As set forth under “INFORMATION CONCERNING APPOINTMENT OF AUDITORS OF HBMS” it is proposed that the firm of Price Waterhouse be appointed as Auditors for HBMS for the year 1983.

The transfer agents for the HBMS Common Shares are (i) in Canada, The Royal Trust Company at its principal offices in the cities of Toronto, Calgary, Montreal, Regina, Winnipeg and Vancouver; and (ii) in the United States, Morgan Guaranty Trust Company of New York, New York City.

The registrars for the HBMS Common Shares are (i) in Canada, Montreal Trust Company at its principal offices in the cities of Montreal and Regina, and The Crown Trust Company at its principal offices in the cities of Toronto, Calgary, Vancouver and Winnipeg; and (ii) in the United States, The Chase Manhattan Bank, N.A., New York City.

The proposed transfer agent and registrar for the HBMS Special Shares will be Montreal Trust Company at its principal offices in the cities of Montreal, Toronto, Winnipeg, Calgary and Vancouver.

INFORMATION CONCERNING INSPIRATION RESOURCES

Business

Inspiration Resources, formerly Plateau Holdings Inc., was organized as a private holding company under the laws of the State of Maryland on June 2, 1978. Inspiration Resources has a direct 100% common equity interest in Inspiration Copper, Inspiration Coal and Terra. On or immediately prior to the Effective Date, Inspiration Resources will obtain a direct 100% common equity interest in Trend, which interest is currently owned 50% indirectly by Minorco and 50% directly by HBMS. Following the Reorganization, Inspiration Resources will also have a direct 100% voting interest in HBMS. See “INFORMATION CONCERNING HBMS—The Business of HBMS and the Inspiration Resources Group” for a description of Inspiration Copper, Inspiration Coal, Terra, Trend and HBMS. Inspiration Resources has advised HBMS that it is the intention of Inspiration Resources to have an executive office in New York City following the Reorganization.

Supplementary Financial Information

Segment and Geographic Data concerning the Inspiration Resources Group is set forth in Note 18 to the Combined Financial Statements of Inspiration Resources Group. Selected Financial Data and Selected Quarterly Combined Financial Data (unaudited) concerning the Inspiration Resources Group is set forth following the Notes to the Combined Financial Statements of the Inspiration Resources Group.

Share Capital

Prior to the Reorganization, the share capital of Inspiration Resources will be recapitalized, with the result that the total number of shares of all classes of stock which Inspiration Resources will be authorized to issue will be 76,500,000, which will be divided into the following categories:

1. Common Shares, without par value 50,000,000 authorized, of which up to 11,309,736 will be outstanding following the Reorganization, depending upon the number of HBMS Shareholders who elect to take Inspiration Resources Common Shares. Of the outstanding shares, up to 4,991,882 will be held indirectly by Minorco following the Reorganization and up to 6,605,029 will be held by the current HBMS Shareholders who elect to receive Inspiration Resources Common Shares. Of the remaining authorized shares, up to 6,317,854 will be reserved for subsequent issuance pursuant to the exchange rights of the HBMS Special Shares, depending upon the number of HBMS Public Shareholders who elect to receive HBMS Special Shares in the Arrangement.
2. Class A Shares, without par value 10,000,000 authorized, of which 4,644,442 will be outstanding following the Reorganization and all of which will be held indirectly by Minorco.
3. Trust Shares, par value \$US0.0001 per share 16,500,000 authorized, of which up to 6,317,854 will be outstanding following the Reorganization, depending upon the number of HBMS Public Shareholders who elect to receive HBMS Special Shares in the Arrangement.

If the anticipated offering of additional HBMS Special Shares described under “THE REORGANIZATION—Transactions Related to the Reorganization” or other subsequent offerings of HBMS Special Shares take place, additional HBMS Special Shares will be issued, resulting in the issuance of additional Inspiration Resources Trust Shares and the reservation for issuance of additional Inspiration Resources Common Shares.

The terms of the Inspiration Resources Common Shares, Inspiration Resources Class A Shares and Inspiration Resources Trust Shares are outlined immediately below. The charter of Inspiration Resources, as amended prior to the Reorganization, will provide that the directors of Inspiration Resources, without the approval of the shareholders, may reclassify authorized but unissued shares by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption of the shares. See “THE REORGANIZATION—Comparison of Shareholders’ Rights Under Maryland and Canadian Law; Prospective Maryland Legislation”.

Inspiration Resources Common Shares

The Inspiration Resources Common Shares, without par value, will be entitled to one vote per share, voting as a class with the Inspiration Resources Class A Shares and the Inspiration Resources Trust Shares. The Inspiration Resources Common Shares (together with the Inspiration Resources Class A Shares) will be entitled to share equally on a per share basis, in such dividends and other distributions as may be lawfully declared or paid, from time to time, by the Board of Directors of Inspiration Resources. Neither the Inspiration Resources Common Shares nor the Inspiration Resources Class A Shares will be redeemable, and the holders of such shares will not be

entitled to pre-emptive rights. In the event of any liquidation, dissolution or winding up of Inspiration Resources, the Inspiration Resources Common Shares, Inspiration Resources Class A Shares and Inspiration Resources Trust Shares will rank *pari passu*, up to an amount equal to \$US0.0001 per share, with respect to distributions of the assets of Inspiration Resources available for distributions to shareholders. The Inspiration Resources Common Shares and Inspiration Resources Class A Shares will also rank *pari passu* with respect to any such distributions of the assets of Inspiration Resources in excess of \$US0.0001 per share, but, as discussed below, the Inspiration Resources Trust Shares will not be entitled to any such distributions in excess of \$US0.0001 per share.

See “THE REORGANIZATION—Equity Interests Before and After the Reorganization” for a description of the ownership of Inspiration Resources Common Shares by Minorco and the former HBMS Public Shareholders following the Reorganization.

Inspiration Resources Class A Shares

The Inspiration Resources Class A Shares, without par value, will be entitled to 1/10 of one vote per share, voting as a class with the Inspiration Resources Common Shares and the Inspiration Resources Trust Shares. Inspiration Resources Class A Shares will be convertible at any time, at the option of the holder, into the same number of Inspiration Resources Common Shares. In all other respects, including the entitlement to dividends, the Inspiration Resources Class A Shares will be identical to the Inspiration Resources Common Shares.

Minorco will receive 4,644,442 Inspiration Resources Class A Shares for certain of its common shares of Inspiration Resources, in the recapitalization of Inspiration Resources prior to the Reorganization. Minorco will be the sole holder of Inspiration Resources Class A Shares. See “THE REORGANIZATION—Equity Interests Before and After the Reorganization” for a discussion of the aggregate voting percentages and total equity interest to be held by Minorco following the Reorganization and for a description of the number of Inspiration Resources Class A Shares and Inspiration Resources Common Shares to be held by Minorco following the Reorganization. Minorco has informed HBMS and Inspiration Resources that Minorco does not intend to sell or otherwise dispose of the Inspiration Resources Class A Shares, other than through conversion to Inspiration Resources Common Shares. However, Minorco has informed HBMS and Inspiration Resources it does not intend to exercise these conversion rights, except to maintain a voting interest in Inspiration Resources to just under 50%. See “THE REORGANIZATION—Minorco’s Relationships with Inspiration Resources”.

Inspiration Resources Trust Shares

The Inspiration Resources Trust Shares, par value \$US0.0001 per share, will be entitled to one vote per share, voting as a class with the Inspiration Resources Common Shares and the Inspiration Resources Class A Shares. Such shares will not be entitled to any cash dividends. Any or all of the Inspiration Resources Trust Shares will be redeemable by Inspiration Resources for a price per share of \$US0.0001; however, Inspiration Resources will agree in the Inspiration Resources Agency Agreement not to do so to the extent that the number of Inspiration Resources Trust Shares remaining with the Trustee after such redemption would be less than the number of Inspiration Resources Common Shares into which the HBMS Special Shares outstanding at such time are then exchangeable. The holders of such Shares will not be entitled to pre-emptive rights. In the event of any liquidation, dissolution or winding-up of Inspiration Resources, the Inspiration Resources Trust Shares will rank *pari passu* with the Inspiration Resources Common Shares and the Inspiration Resources Class A Shares up to an amount equal to \$US0.0001 per share with respect to the assets of Inspiration Resources available for distribution to shareholders, but will be entitled to no further distribution.

The Inspiration Resources Trust Shares will be held for the benefit of the holders of HBMS Special Shares pursuant to the Inspiration Resources Agency Agreement. See “THE REORGANIZATION—Description of HBMS Special Shares and Inspiration Resources Common Shares” for a description of the mechanism for voting of the Inspiration Resources Trust Shares by the Trustee, the exchange of HBMS Special Shares for Inspiration Resources Common Shares, the guarantee of Inspiration Resources with respect to dividends on HBMS Special Shares and other matters. See “THE REORGANIZATION—Equity Interests Before and After the Reorganization” for a description of the number of Inspiration Resources Trust Shares which will be issued in the Reorganization with respect to the HBMS Public Shareholders who elect to convert their HBMS Common Shares into HBMS Special Shares.

Directors and Officers

The following table sets forth the persons whom HBMS and Minorco intend to elect as directors of Inspiration Resources prior to the Effective Date, together with their principal occupations. See “INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS—Nominees” for information concerning the age, the principal occupations or employments of each such director during the past 5 years and all other major positions and offices held by each

such director with HBMS and its significant affiliates, except for R. R. Davis, A.M. Doull, J.B. Howkins, and H. R. Slack, for whom such information is set forth below.

<u>Name and Municipality of Residence</u>	<u>Position</u>	<u>Principal Occupation</u>
E.M. Carson Phoenix, Arizona	Director	President and Chief Executive Officer of First Interstate Bank of Arizona
H.P. Crawford, Q.C. Toronto, Ontario	Director	Partner, Osler, Hoskin & Harcourt (barristers and solicitors)
R.R. Davis New York, New York	Director	Partner, Chadbourne, Parke, Whiteside & Wolff (counsellors at law)
*A.M. Doull Toronto, Ontario	Director	Vice-President, Finance of Minorco and Vice-President of Mincan
*J.B. Howkins Toronto, Ontario	Director	Executive Vice-President of HBMS
R.H. Jones Winnipeg, Manitoba	Director	Chairman of the Board and Chief Executive Officer of The Investors Group (Canadian financial services holding company)
A.T. Lambert Toronto, Ontario	Director	Company Director
J.R.B. Phillimore London, England	Director	Vice-President, Administration, Minorco
G.W.H. Relly Johannesburg, South Africa	Director	Chairman, AAC
*R.F. Richards Far Hills, New Jersey	Director	Chairman of the Board, President and Chief Executive Officer of HBMS
H.R. Slack Sandton, South Africa	Director	Company Director
A. Sweatman, Q.C. Winnipeg, Manitoba	Director	Partner, Thompson, Dorfman, Sweatman (barristers and solicitors)

*Mr. Richards, Dr. Howkins and Mr. Doull are currently directors of Inspiration Resources. Mr. Doull has advised HBMS and Inspiration Resources that he intends to resign from his positions with Minorco.

All of the proposed directors of Inspiration Resources are presently directors of HBMS with the exception of Messrs. Davis, Doull, Howkins and Slack. The age of each such person, his principal occupations or employments during the past 5 years and all other major positions and offices held by each such person with HBMS, Inspiration Resources and their affiliates are set forth below.

<u>Name and Age</u>	<u>Principal Occupations and Other Major Positions</u>
R.R. Davis (46)	Partner, Chadbourne, Parke, Whiteside & Wolff (counsellors at law), a director of Inspiration Copper from August 1978 to October 1981.
A.M. Doull (38)	Vice-President of Mincan since August 1973 and a Director since May 1974. From March 1976 to December 1981, he was Senior Vice-President, Finance of HBMS. He is also a Director and Executive Vice-President of Inspiration Resources, Vice-President, Finance and an Alternate Director of Minorco, and a Director of Inspiration Copper, Terra, Trend Exploration Limited and Trend.
J.B. Howkins (51)	Executive Vice-President of HBMS since December 1982. From January 1982 to December 1982, he was Senior Vice-President, Corporate and Exploration. From November 1978 to December 1981, he was Senior Vice-President, Exploration; and prior thereto, he was President and Chief Executive Officer of Inspiration Copper. He is also a Director and President of Inspiration Resources and a Director of Inspiration Copper, Terra and Mincan.
H.R. Slack (33)	Company Director of Minorco since September 1981 and Director of AAC since January 1983. He was an Executive Assistant to the Chairman of AAC prior to January 1983.

Inspiration Resources does not have any committees of the Board of Directors at this time; however, following the Reorganization, the Board of Directors of Inspiration Resources will appoint one or more committees including an audit committee.

Mr. Davis is a partner of the law firm of Chadbourne, Parke, Whiteside & Wolff. During 1982, Inspiration Copper paid \$US191,000 for services rendered by Chadbourne, Parke, Whiteside & Wolff.

Mr. Richards, Dr. Howkins and Mr. Doull are currently Chairman of the Board and Chief Executive Officer, President and Executive Vice-President, respectively, of Inspiration Resources. After the Reorganization, these officers as well as Mr. R.R. Davis will become executive officers of Inspiration Resources. See "THE REORGANIZATION—Minorco's Relationships with Inspiration Resources".

Security Ownership

Inspiration Resources is currently owned 50% indirectly by Minorco and 50% indirectly by HBMS. There are currently no other owners of equity capital of Inspiration Resources. See "THE REORGANIZATION—Equity Interests Before and After the Reorganization" for a description of the share ownership of Inspiration Resources following the Reorganization.

The security ownership in AAC, Charter, Minorco and HBMS by the proposed directors of Inspiration Resources who are also directors of HBMS is set forth under "INFORMATION CONCERNING HBMS—Security Ownership". Dr. Howkins, an additional proposed director of Inspiration Resources, has sole voting power and sole investment power over 564 HBMS Common Shares. Mr. Slack, an additional proposed director of Inspiration Resources who is presently a director of Minorco and AAC, has indirect partial interests in approximately 6.5% of the outstanding shares of Minorco and 8% of the outstanding shares of AAC.

None of the proposed directors and officers own shares of Inspiration Resources. As of May 2, 1983, each of the proposed directors individually and the proposed directors and officers of Inspiration Resources as a group beneficially own less than 1% of the total issued and outstanding shares of each of Charter and HBMS. The proposed directors and officers as a group beneficially own approximately 6.5% of the total issued and outstanding shares of Minorco and approximately 8.3% of the total issued and outstanding shares of AAC.

Management Remuneration

With the exception of the Chairman of the Board and Chief Executive Officer, the directors and officers of Inspiration Resources do not receive remuneration from Inspiration Resources. During 1982, Inspiration Resources paid the Chairman of the Board and Chief Executive Officer \$US315,353, of which \$US55,175 was for his salary and the remainder was in consideration and reimbursement of various expenses incurred by Mr. Richards in connection with his assumption of his positions with Inspiration Resources. None of the other present or proposed directors or officers of Inspiration Resources received remuneration in 1982 for serving in such capacity. Inspiration Resources has advised that in 1983 following completion of the Reorganization, it will pay remuneration to the directors and officers of Inspiration Resources in such capacities.

Transactions with Management and Others

Information with respect to transactions between Inspiration Resources, HBMS and others is set forth in "INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS—Transactions with Management and Others".

Material Contracts

Except for contracts made in the ordinary course of business, the only material contracts entered into by Inspiration Resources within the two years preceding the date hereof are the following:

1. Reorganization Agreement dated June 10, 1981 among Plateau Holdings Inc., Sovereign Group Subsidiary, Inc., Sovereign Coal Group, Inc., Harman Mining Subsidiary, Inc. and Harman Mining Corporation.
2. Credit agreements, contracts and other financing agreements set forth in Note 9 to the Combined Financial Statements of Inspiration Resources.
3. Interest Exchange Agreement dated March 8, 1983 between Inspiration Resources and Chemical Bank.
4. The Arrangement Agreement attached as Appendix 3.
5. The Inspiration Resources Agency Agreement attached as Schedule C to the Arrangement Agreement which is attached hereto as Appendix 3 (to be entered into on or before the Effective Date).
6. The Minorco Commitment Letter dated May 12, 1983 among Minorco, HBMS and Inspiration Resources.

Copies of the following contracts may be inspected at the offices of HBMS, 28th Floor, Toronto-Dominion Bank Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1B8 during business hours, until 30 days after the Effective Date.

Auditors, Transfer Agents and Registrars

The auditors of Inspiration Resources are Price Waterhouse. The transfer agent and registrar for Inspiration Resources Common Shares will be Morgan Guaranty Trust Company of New York, through its offices in New York, New York.

INFORMATION CONCERNING ELECTION OF DIRECTORS OF HBMS

Nominees

Twelve directors are to be elected at the Meeting. It is the intention of the persons named in the enclosed form of proxy to vote such proxy in favour of the election to the Board of Directors of HBMS of the twelve nominees of management listed in the following table (in the event that authority is not withheld) for terms to expire at the 1984 Annual Meeting of Shareholders. This resolution must be approved by a majority vote of HBMS Shareholders present in person or represented by proxy at the Meeting.

All of the nominees are now members of the Board of Directors of HBMS. Mr. Richards was appointed to the Board of Directors on November 2, 1982 to replace W. A. Morrice who then retired and had served on the Board since 1971. Mr. Morrice was an employee of HBMS from 1940 to 1977.

Should any nominee become unable to accept nomination for election, the persons named in the enclosed form of proxy will vote for the election of such other person to the office of director as the management may recommend in place of such nominee.

The table below shows as of May 2, 1983 (1) the name and age of each of the nominees; (2) the principal occupations or employments of each of the nominees during the past 5 years; (3) all other major positions and offices held by each of the nominees with HBMS and its significant affiliates; and (4) the period during which each of the nominees has served as a director.

<u>Name, Age and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation and Other Major Positions</u>
E.M. Carson (53) (c) Phoenix, Arizona	1981	President and Chief Executive Officer, First Interstate Bank of Arizona, N.A.
J.N. Clarke (48) (b) London, England	1980	Deputy Chairman and Chief Executive of Charter since April 1980; and from October 1979 to April 1980 he was Managing Director thereof. He has been an Executive Director of AAC since January 1978. From November 1974 to date, he has been an Executive Director of Charter.
H.P. Crawford, Q.C. (51) (a) Toronto, Ontario	1976	Partner, Osler, Hoskin & Harcourt (barristers and solicitors).
E.P. Gush (45) (b) Toronto, Ontario	1977	Director of HBMS. From April 1980 to December 1982, he was Chairman of the Board and President of HBMS; from April 1979 to December 1982, he was Chief Executive Officer; and prior thereto, he was President thereof. From April 1978 to June 1979, he was a Director of AAC.
R.H. Jones (58) Winnipeg, Manitoba	1975	Chairman of the Board and Chief Executive Officer, The Investors Group (Canadian financial services holding company) since April 1981; and prior thereto, he was President and Chief Executive Officer thereof.
A.T. Lambert (71) (a) (c) Toronto, Ontario	1966	Company Director. Director of a Canadian chartered bank until January 1982; and in 1978, he was Chairman of the Board.
J.R.B. Phillimore (33) (b) London, England	1981	Vice-President, Administration of Minorco since May 1981. From October 1979 to April 1981, he was a Divisional Manager of AAC; and prior thereto, he was Assistant Divisional manager thereof.
G.W.H. Relly (57) (b) Johannesburg, South Africa	1969	Chairman of AAC since January 1983; and prior thereto, he was a Joint Deputy Chairman thereof.

<u>Name, Age and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupations and Other Major Positions</u>
R.F. Richards (53) (a) (b) (c) Far Hills, New Jersey	1982	Chairman of the Board, President and Chief Executive Officer of HBMS, Chairman of the Board and Chief Executive Officer of Inspiration Resources and Director and member of the Executive Committee of Minorco since December 1982. Prior thereto, he was Executive Vice-President of Citibank, N.A. He is also a Director and Chairman of the Board of Inspiration Copper and of Terra, and a Director of Trend and Trend Exploration Limited.
A. Sweatman, Q.C. (62) (a) (c) Winnipeg, Manitoba	1973	Partner, Thompson, Dorfman, Sweatman (barristers and solicitors).
J.D. Taylor, Q.C. (54) (b) Toronto, Ontario	1973	Company Director. From May 1978 to May 1981, he was an Alternate Director and Manager of AAC; and prior thereto, he was a Manager thereof.
V. Van Sant, Jr. (61) (c) Calgary, Alberta	1980	Consultant since May 1982. He was Chairman of the Board and Chief Executive Officer of Francana from July 1979 to May 1982. From October 1978 to July 1979, he was a consultant in the oil and gas industry; and prior thereto, he was President and Chief Executive Officer and a Director of Ashland Oil Canada Limited. He is also a Director and Chairman of the Board of Trend and Trend Exploration Limited.

- (a) Member of the Executive Committee of the Board of Directors of HBMS. Subject to the limitations contained in the CBCA, the Executive Committee has all the powers of the Board of Directors of HBMS during the intervals between meetings of the Board.
- (b) Messrs. Clarke, Phillimore, Rely, Richards and Taylor are directors of Mincan and Mr. Richards is also an officer thereof. Messrs. Clarke, Gush, Rely and Richards are directors of Minorco and Mr. Phillimore is an alternate director and officer thereof. Messrs. Clarke and Rely are executive directors of AAC, and Mr. Rely is an officer thereof. Messrs. Clarke and Rely are directors of Charter, Mr. Phillimore is an alternate director and Mr. Clarke is also an officer thereof. Mr. Rely is also a director of De Beers.
- (c) In addition to the positions and offices held by the nominees with HBMS and its significant affiliates, nominees also hold the following directorships with corporations that are subject to United States securities laws:

E.M. Carson	Ramada Inns, Inc.
R.H. Jones	TransCanada PipeLines Limited
A.T. Lambert	Dome Mines Limited, Dome Petroleum Limited, Hiram Walker Resources Ltd. and Pan American Banks Inc.
R.F. Richards	Potlatch Corporation and G.D. Searle and Co.
A. Sweatman, Q.C.	Inter-City Gas Corporation
V. Van Sant, Jr.	Camco, Incorporated

During 1982, the Board of Directors of HBMS met ten times. Each of the directors attended at least 75% of the meetings of the Board of Directors of HBMS and of the committees of the Board on which he served except for Messrs. Carson and Clarke.

The Board of Directors has an Audit Committee which met twice during 1982. Messrs. Jones, Lambert and Richards are the members of the Audit Committee. The principal function of the Audit Committee is to review and approve the financial statements of HBMS prior to presentation to the Board of Directors and shareholders. In addition, the Audit Committee recommends the appointment of auditors and reviews the scope of the audit with the auditors.

The Board of Directors of HBMS also has a Compensation Committee which met four times during 1982. Messrs. Crawford, Lambert, Richards and Sweatman are the members thereof. The principal function of the Compensation Committee is to review and make recommendations to the Board of Directors of HBMS on compensation matters.

HBMS does not have a nominating committee.

Executive Officers

Information with respect to the executive officers of HBMS is set forth in "INFORMATION CONCERNING HBMS—Directors and Officers".

Security Ownership

Information with respect to the security ownership of Mincan and the management of HBMS in HBMS Common Shares is set forth in "INFORMATION CONCERNING HBMS—Security Ownership".

Management Remuneration

The table below shows the aggregate remuneration paid during 1982 for services in all capacities rendered to HBMS and its subsidiaries by all of the directors of HBMS who were not officers; by each of the five highest-paid directors or officers of HBMS; by all other officers of HBMS as a group earning in excess of \$Cdn40,000; and the totals of all such remuneration to all the directors and officers of HBMS as a group.

Cash and Cash Equivalent Forms of Remuneration (\$Cdn)

<u>Individual or Group and Number of Persons in Group</u>	<u>Capacities in which Services Rendered</u>	<u>Directors' Fees (1)</u>	<u>Salaries and Bonuses (2)</u>	<u>Securities, Insurance and Personal Benefits (3)</u>	<u>Totals</u>
Remuneration of directors who were not officers (11 persons)					
HBMS.....		\$60,262 (4)	\$ —	\$ —	\$ 60,262
Remuneration of officers (11 persons including 2 directors who were also Officers)					
HBMS					
E.P. Gush.	Chairman of the Board, President and Director	6,215	255,417	136	261,768
H.S. Schwartz	President— Canadian Metals division	—	164,667	19,690	184,357
J.B. Howkins.	Executive Vice-President	—	122,858	14,672	137,530
M.B. O'Shaughnessy..	Senior Vice-President, Marketing	—	154,775	30,469	185,244
C.K. Taylor, Q.C.....	Senior Vice-President, Secretary and General Counsel	—	116,408	5,404	121,812
All Other Officers		1,243	388,822	44,795	434,860
Other:					
E.P. Gush.		—	—	26,723	26,723
J.B. Howkins.		—	—	541	541
C.K. Taylor		—	—	2,231	2,231
All Other Officers		—	55,175	260,178	315,353
Total remuneration to all Officers and Directors as a group (22 persons)		<u>\$67,720 (4)</u>	<u>\$1,258,122</u>	<u>\$404,839</u>	<u>\$1,730,681</u>

- (1) Each of the directors of HBMS receives an annual retainer of \$3,000, plus \$300 for each of the Board of Directors meetings attended. In addition, each member of the Executive, Audit and Compensation Committees who is not an officer receives a fee of \$500 per meeting attended. On May 3, 1982, the Board of Directors of HBMS approved a 10% decrease in all of these fees payable to directors. On January 1, 1983 the 10% decrease in fees was reversed.
- (2) Amounts include bonuses paid to the five highest-paid officers and to all other officers as follows: E.P. Gush—\$20,000; H.S. Schwartz—\$14,000; J.B. Howkins—\$5,150; M.B. O'Shaughnessy—\$25,000; C.K. Taylor, Q.C.—\$10,000; and all other officers in aggregate—\$12,510.
- (3) Benefits include the use of HBMS-leased cars based on calculations under the Tax Act.
- (4) Not included in this amount is a payment of \$100,000 paid by HBMS to Francana Oil & Gas Ltd. for the purpose of providing a retirement allowance to a certain director of HBMS in his capacity as an officer and director of Francana.

The above table does not include the estimated cost of contingent forms of remuneration in the form of retirement benefits. The Salaried Retirement Income Plan of HBMS (the "Retirement Plan") was established on July 1, 1968 and was last amended as of February 10, 1982. The Retirement Plan is funded and administered by HBMS and provides for defined retirement benefits. Contributions made by HBMS pursuant to the Retirement Plan are based upon actuarial calculations made by independent consultants and are invested and administered by five Trustees, four of whom are officers of HBMS and the fifth is neither an employee nor a shareholder of HBMS. The Retirement Plan is qualified for tax purposes since it is registered with Revenue Canada and the Department of Insurance, Ottawa.

All full-time management employees of HBMS, as well as other head office employees of HBMS, are eligible to participate in the Retirement Plan. The retirement benefit for each participant in the Retirement Plan is based on the average annual earnings paid to such participant for the best three of the last 10 years of service. The retirement benefit is subject to deduction of an amount equal to a portion of the benefit from the Canada Pension Plan.

Shown below is the estimated aggregate current service cost to HBMS and its subsidiaries during 1982 and the estimated aggregate current service cost during the past five years of all retirement benefits payable under the Retirement Plan to each of HBMS' five highest-paid officers in 1982, to all other officers and directors as a group during the past five years and to all employees of HBMS as a group during the past five years. Directors of HBMS who are not also employees or former employees are not eligible for retirement benefits.

<u>Name of Individual or Group</u>	<u>Estimated Aggregate Current Service Cost in 1982 (\$Cdn)</u>	<u>Estimated Aggregate Current Service Cost During Past 5 Years (\$Cdn)</u>
E.P. Gush	\$ 35,770	\$ 126,346
H.S. Schwartz	26,491	88,705
J.B. Howkins	20,561	84,582
M.B. O'Shaughnessy	16,700	37,267
C.K. Taylor, Q.C.	18,063	81,352
All other Officers and Directors	63,159	679,842
All Employees	3,637,934	12,276,159
Totals	<u>\$3,818,678</u>	<u>\$13,374,253</u>

The figures shown in the table cover benefits under retirement pension plans. In addition to providing benefits under retirement pension plans, HBMS has agreed to provide supplemental retirement benefits to certain officers or former officers. Supplemental retirement benefits in the amount of \$246,139 were paid during the past five years, of which \$98,615 was paid during 1982. The estimated future supplemental retirement benefits total \$145,202 per annum (including \$66,462 for Mr. Gush; \$15,328 for Mr. Schwartz; \$27,794 for Dr. Howkins; \$19,191 for Mr. O'Shaughnessy; and \$8,018 for Mr. Taylor) computed upon the assumption that (i) each present employee will retire at the normal retirement age and (ii) his 1982 salary will not be exceeded.

The following table shows the estimated annual benefits (including supplemental retirement benefits) under the Retirement Plan payable upon retirement (assuming a straight life annuity) to persons in certain specified remuneration and years-of-service classifications.

Remuneration (\$Cdn)	Years of Service				
	15	20	25	30	35
\$ 50,000.....	\$13,200	\$17,700	\$22,100	\$ 26,500	\$ 30,900
\$100,000.....	28,200	37,700	47,100	56,500	65,900
\$150,000.....	43,200	57,700	72,100	86,500	100,900
\$200,000.....	58,200	77,700	97,100	116,500	135,900

The credited years of service under the Retirement Plan of each of the directors and officers named in the remuneration table are, respectively: E.P. Gush—6.5; J.B. Howkins—18, M.B. O'Shaughnessy—3; H.S. Schwartz—4; and C.K. Taylor, Q.C.—9.

In his capacity as an officer of Francana, a certain director was a member of Francana's retirement plan that was registered with Revenue Canada and the Department of Labour, Alberta. The contributions made by Francana pursuant to this plan were based upon actuarial calculations made by independent consultants and were invested and administered by the Trustees of the Pension Fund of HBMS. On May 14, 1982, HBMS disposed of its interest in Francana and the administration of the Francana pension plan was subsequently transferred from the Trustees to another administrator.

Since January 1, 1982, HBMS has had loans outstanding to the following officers: W.A. Atkinson, Comptroller; D.H. Houston, Vice-President, Taxation; Dr. J.B. Howkins—Executive Vice-President; S. Kozel, Assistant Secretary; M.B. O'Shaughnessy, Senior Vice-President, Marketing; D.W. Perks, Vice-President, Finance and Treasurer; H.S. Schwartz, President—Canadian Metals; and C.K. Taylor, Q.C., Senior Vice-President, Secretary and General Counsel. The interest-free loans were made for the purpose of enabling the said officers to purchase residential property and are secured by first mortgages on the property purchased. Each loan has a term of 13 years and is repayable in equal monthly instalments. The largest aggregate amount of indebtedness outstanding since January 1, 1982 for the following persons has been: Mr. Atkinson—\$Cdn18,990; Mr. Houston—\$Cdn37,122; Dr. Howkins—\$Cdn165,452; Miss Kozel—\$Cdn82,636; Mr. O'Shaughnessy—\$Cdn285,300; Mr. Perks—\$Cdn164,045; Mr. Schwartz—\$Cdn216,208; and Mr. Taylor—\$Cdn48,169. The amount of indebtedness outstanding for each such person as at May 2, 1983 is: Mr. Atkinson—\$Cdn16,882; Mr. Houston—\$Cdn32,010; Dr. Howkins—\$Cdn147,228; Miss Kozel—\$Cdn73,148; Mr. O'Shaughnessy—\$Cdn261,780; Mr. Perks—\$Cdn151,425; Mr. Schwartz—\$Cdn189,184; and Mr. Taylor—\$Cdn38,505.

During 1980, HBMS sold 25,000 common shares of Francana to a corporation which is controlled by members of the family of V. Van Sant, Jr., a director of HBMS. The sale price of \$Cdn387,500 was determined by the market price of the common shares of Francana at the time of sale, which was to be paid by that corporation without interest by March 12, 1985. Mr. Van Sant disclaimed beneficial ownership of these shares. On January 12, 1982, HBMS repurchased these shares for the amount outstanding, namely \$Cdn387,500.

HBMS maintains a Directors' and Officers' Liability Insurance Policy with a limit of liability of \$10,000,000 to cover, as a group, the directors and officers of HBMS and certain of its subsidiaries and to cover HBMS and such subsidiaries for their liability to indemnify such directors and officers. Of the aggregate annual premium in the amount of approximately \$Cdn21,230, 90% of the premium is borne by HBMS and the remaining 10% is borne by the directors and officers of HBMS (12 directors and 9 officers who are not directors). Under the Policy, HBMS bears the first \$Cdn25,000 of the loss.

The Board of Directors of HBMS has adopted an incentive plan providing for the making of cash awards to certain management employees of HBMS, its subsidiaries and other affiliates based upon individual performance and contribution to corporate and divisional profitability. No awards have been granted under this plan.

The Board of Directors of HBMS has also adopted an employee savings plan (the "HBMS Employee Savings Plan") which is available to all employees of HBMS. This plan provides a means whereby employees may voluntarily and regularly save for their long-term financial needs and encourages and assists such employees in acquiring a proprietary interest in HBMS. Each participant directs, at the time he elects to become a participant, that his contributions be placed in a fund invested entirely in HBMS Common Shares or in a savings fund invested

in quality short-term securities. Matching contributions are made to the Employee Savings Plan by HBMS in an amount equal to 25% of the contributions made by the participating employee, which matching contributions are held for the benefit of the contributing employee, and vesting in such matching contributions takes place over a fixed time period. Both funds are administered by an independent trustee, and HBMS Common Shares to be included in the HBMS Common Share fund are purchased on the open market by such trustee. There were four officers (including J.B. Howkins) and 582 other employees participating in the plan during 1982. HBMS contributed \$Cdn154,524 under the plan in 1982, the officers' portion of which was \$Cdn2,733 (including \$Cdn1,077 for J.B. Howkins). As a result of HBMS' contributions, an aggregate of 9,524 shares were allocated to the employees on a pro rata basis, 167 of which were for the benefit of the four officers (including 67 for J.B. Howkins). See "THE REORGANIZATION—Employee Savings Plan" for a discussion of the treatment in connection with the Reorganization of HBMS Common Shares held for employees in the HBMS Employees Savings Plan.

HBMS has a 1981 Key Executive Share Purchase Plan under which no shares have been issued.

HBMS also has a 1981 Share Option Plan under which options for 250,000 HBMS Common Shares may be granted. Each option must be granted at a price not less than the fair market value of HBMS Common Shares (the weighted average sale price per share for board lots of HBMS Common Shares traded on The Toronto Stock Exchange on the business day preceding the date of grant). This Plan was amended by the Board of Directors of HBMS on November 2, 1982 to remove the restriction to eligibility with respect to the granting of options.

On March 4, 1982, the Board of Directors of HBMS granted effective as of March 15, 1982, options to purchase 39,000 HBMS Common Shares to certain key employees under the 1981 Share Option Plan. These options were granted at a price of \$Cdn18.50. In the 30-day period preceding the date of the grant, the price range of HBMS Common Shares traded on The Toronto Stock Exchange was \$Cdn22 to \$Cdn17.63. Each option was granted for a period of five years but was not exercisable until after six months from the date of grant. As of May 2, 1983, no option has been exercised.

On February 3, 1983, the Board of Directors of HBMS granted an option to purchase 5,000 HBMS Common Shares to an officer of HBMS pursuant to the 1981 Share Option Plan. The option, granted for a period of five years and exercisable after six months from the date of grant, was granted at a price of \$Cdn20.78 per share. In the 30-day period preceding the date of the grant, the price range of HBMS Common Shares traded on The Toronto Stock Exchange was \$Cdn21.25 to \$Cdn16.25. See "THE REORGANIZATION—Employee Stock Options" for a discussion of the treatment in the Reorganization of options to purchase outstanding HBMS Common Shares granted to employees.

The following table sets forth information as of May 2, 1983 as to all options to purchase HBMS Common Shares under the 1981 Share Option Plan held by the five highest-paid directors and officers of HBMS and all directors and officers as a group.

<u>Name of Individual or Group</u>	<u>Options Granted as of May 2, 1983</u>
E.P. Gush.	5,000
J.B. Howkins.	4,000
M.B. O'Shaughnessy	2,000
H.S. Schwartz	2,000
C.K. Taylor, Q.C.	3,500
All Directors and Officers as a group	32,000

Transactions with Management and Others

HBMS and certain subsidiaries have invested (and may continue to invest in the future) part or, from time to time, all of their funds available for short-term investments in short-term notes of Ambay Services Limited ("Ambay"), which is 50% owned by HBMS and 50% owned by Mincan. The maximum amount invested in such short-term notes at any one time since January 1, 1982 has been \$Cdn17,337,000 and the amount invested as of May 2, 1983 is \$Cdn947,000. The return on these short-term notes has been not less than the return that would have been realized from investments in the commercial paper market.

From time to time, HBMS and certain subsidiaries have borrowed funds (and may continue to borrow funds in the future) on a demand basis from Ambay. The maximum amount owing at any one time since January 1, 1982 has been \$Cdn1,672,000 and there was no amount owing at May 2, 1983. The borrowings were made on normal commercial terms at rates comparable with the rates that would have been payable had the borrowings been made from a non-associated lender.

During 1982, approximately \$Cdn657,563 was spent (of which HBMS' share was \$Cdn311,282) pursuant to an agreement among HBMS, Mincan and a company associated with Mincan, Tombill Mines Limited ("Tombill"), whereby the cost of several exploration programs in Canada outside the Provinces of Manitoba and Saskatchewan, the cost of exploration programs with respect to certain designated lands within the Province of Saskatchewan and any discoveries and profits resulting from such programs are shared by HBMS, Mincan and Tombill. The total amount expended on such exploration includes approximately \$Cdn8,449 contributed by the Province of Saskatchewan as a result of its participation in one exploration program in that Province.

HBMS provides management services to Mincan and, for the year 1982, Mincan paid HBMS a fee of \$Cdn480,742 for such services. In the opinion of management, the fee paid to HBMS for such services was at least as favourable as could have been obtained from unaffiliated third parties.

HBMS has entered into an agreement with Inspiration Resources, whereby HBMS would reimburse Inspiration Resources for administrative services rendered to HBMS. The agreement also provides that HBMS would be reimbursed for administrative services rendered to Inspiration Resources. During 1982, the services rendered to HBMS by Inspiration Resources were in the amount of \$Cdn14,631, and the services provided to Inspiration Resources by HBMS were in the amount of \$Cdn1,312,066.

In order to ensure that Inspiration Copper has sufficient capital to meet the covenants contained in its financing arrangements, HBMS and Minorco had jointly agreed to provide funds to Inspiration Resources. As of May 2, 1983, HBMS has advanced \$US5.75 million and Minorco has advanced \$US5.75 million to Inspiration Resources. In addition, Inspiration Resources Group has advanced \$US66.3 million of its own funds to Inspiration Copper. See Note 8(b) to the Consolidated Financial Statements of HBMS.

HBMS and Minorco each guaranteed half of the \$US138,946,000 revolving-term credit facility of Inspiration Resources which was used to secure principal and interest payments on instalment notes repaid on January 15, 1983 to the vendors of the Sovereign Coal Group, Inc. and Harman Mining Corporation. On January 17, 1983, HBMS and Minorco each advanced \$US30 million to Inspiration Resources to assist in repaying the instalment notes with the balance of the required funds being advanced under the revolving-term credit facility. The advances bear interest at the London Inter-Bank Offering Rate (LIBOR) plus $\frac{3}{4}$ of 1% and will be repayable on or before December 31, 1983. Both HBMS and Minorco have agreed to capitalize their advances into equity of Inspiration Resources by December 30, 1983 in the event the Reorganization of HBMS and Inspiration Resources is not completed by that time. In connection with the Reorganization, the loans by HBMS and Minorco to Inspiration Resources in the aggregate principal amount of \$US60 million will be repaid and on the Effective Date of the Reorganization, HBMS will be released from its guarantee under the letter of credit. See Note 8(a) to the Consolidated Financial Statements of HBMS.

In 1978, HBMS and Minorco agreed to provide funds to Inspiration Copper in proportion to their interests in an aggregate amount not exceeding \$US29.4 million to enable Inspiration Copper to redeem certain preference shares. Of this amount, as of May 2, 1983, \$US14.2 million has been paid by each of HBMS and Minorco and \$US158,000 has been paid by Inspiration Resources using its own funds.

On February 5, 1982, Inspiration Resources acquired all the assets, excluding working capital, of the Wheelwright coal operations of Island Creek Coal Company at a cost of \$US26 million. This acquisition was funded by a note and cash resources of Inspiration Resources.

On February 1, 1982, HBMS, its then subsidiary Francana, Mincan and Sceptre entered into a letter agreement providing for a reorganization of Francana pursuant to which (a) HBMS acquired Mincan's entire interest in Francana in exchange for a demand note in the amount of \$US29,806,500; (b) Trend acquired a 27% interest in Adobe from Francana in exchange for common shares of Trend and the assumption by Trend of approximately \$Cdn68 million of Francana debt; (c) HBMS acquired the non-Canadian assets of Francana in exchange for the common shares of Francana held by it (approximately 75%); and (d) Francana's public shareholders exchanged each common share of Francana (approximately 25% of the aggregate shares outstanding) for 2.15 common shares of Sceptre. The transaction was completed on May 14, 1982 when Francana ceased being a subsidiary of HBMS.

Mr. Crawford is a partner of the law firm of Osler, Hoskin & Harcourt and Mr. Sweatman is a partner of the law firm of Thompson, Dorfman, Sweatman. During 1982, HBMS paid to Osler Hoskin & Harcourt \$Cdn342,360 for legal services rendered to HBMS and its subsidiaries, and paid to Thompson, Dorfman, Sweatman \$Cdn6,692 for legal services rendered to HBMS and its subsidiaries.

INFORMATION CONCERNING APPOINTMENT OF AUDITORS OF HBMS

At the Meeting, action will be taken to appoint the firm of Price Waterhouse of Toronto as auditors to serve until the 1984 Annual Meeting of Shareholders at a remuneration to be fixed by the directors. Representatives of that firm are expected to be present at the Meeting with the opportunity to make a statement if they desire to do so and to be available to respond to appropriate questions. As indicated at the 1982 Annual Meeting, the Board of Directors of HBMS is recommending that the shareholders vote at the Meeting in favour of the appointment of Price Waterhouse, and it is the intention of the persons named in the enclosed form of proxy to so vote, unless instructed otherwise by the shareholder. This resolution must be approved by a majority vote of HBMS Shareholders present in person or represented by proxy at the Meeting. Price Waterhouse are the auditors of the Inspiration Resources Group. The Board of Directors believes that this appointment is in the best interests of HBMS Shareholders.

Deloitte Haskins + Sells, the present auditors of HBMS, were advised on May 28, 1982 that the management of HBMS proposes to recommend to the shareholders that Price Waterhouse be appointed as auditors of HBMS at the Meeting. Representatives of Deloitte Haskins + Sells are expected to be present at the Meeting with the opportunity to make a statement if they desire to do so and to be available to respond to appropriate questions.

Pursuant to National Policy Number 31 issued by the securities regulatory authorities of the Canadian Provinces, a Notice of Change of Auditors was sent to the securities administrators of all the Provinces of Canada on June 1, 1982. A copy of said Notice is set forth in Appendix 5 of this Circular.

CONSOLIDATED FINANCIAL STATEMENTS OF HBMS

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On April 26, 1983, Plateau Holdings Inc. changed its name to Inspiration Resources Corporation. Accordingly, all references thereto in these financial statements have been changed; Plateau Holdings is now referred to as Inspiration Resources and Plateau Group as Inspiration Resources Group.

Although the Trend companies do not become subsidiaries of Inspiration Resources until the Reorganization, they are included in the Inspiration Resources Group as of May 1982 following the Francana Oil & Gas Ltd. Arrangement.

HUDSON BAY MINING AND SMELTING CO., LIMITED

MANAGEMENT'S DISCUSSION OF THE 1980-1982 CONSOLIDATED FINANCIAL STATEMENTS

Liquidity and Capital Resources

Depressed market conditions for HBMS' principal products, in concert with the worldwide recessionary environment, resulted in 1982 operating losses. Actions taken to minimize costs while improving productivity included a shutdown of the Flin Flon/Snow Lake operations from June 26, 1982 to August 23, 1982, workforce reductions and deferred capital spending. The consolidated statement of changes in financial position shows a rapid decline in working capital provided by operations. The principal component, a decline in earnings from operations, which is discussed in more detail hereunder has been largely a function of lower commodity prices. The effect of this decline in earnings has been exacerbated on a cash basis in 1982 because earnings from operations include a deferred income tax benefit. Dividends from associated companies have fallen due to the transfer of Terra into the Inspiration Resources Group and because of the decline in dividends from Tanco.

Non-cash operating working capital did not change significantly in 1980. In 1981, there was a \$Cdn23.6 million increase due primarily to increased inventory levels. In 1982, non-cash operating working capital decreased by \$Cdn10.7 million as reductions in inventories resulted from lower production due to the summer shutdown.

Capital expenditures have been heavy (1982—\$Cdn43.3 million, 1981—\$Cdn81.4 million and 1980—\$Cdn36.6 million) as work was done to upgrade the surface plants at Flin Flon and to bring on new mining capacity at Flin Flon and Snow Lake. While shaft sinking was completed at the Rod mine in 1982, mine development was postponed. Expenditures in the last half of 1982 were curtailed to \$Cdn7.7 million and plans for 1983 call for capital expenditures of approximately \$Cdn10.0 million for the year. If metal prices realized in early 1983 continue throughout the year, operating cash flows will fund anticipated capital expenditures.

Offsetting the declining, and in 1982 significantly negative, cash flow from operations and heavy capital expenditures, were a number of special non-recurring receipts: in 1980—\$Cdn50.4 million from sale of HBMS' holding in Rosario Resources, in 1981 and 1982—\$Cdn57.5 million from sale of the Island Falls power plant and in 1982—\$Cdn28.6 million from the petroleum reorganization. In addition, in 1982 HBMS drew down \$Cdn30.0 million on its long-term lines of credit. Unused long-term facilities of \$Cdn95.0 million were in place at December 31, 1982. HBMS also had available \$Cdn46.1 million of unused short-term lines of credit at December 31, 1982.

While the Inspiration Resources Group expansion has not received significant cash infusions from HBMS, its highly leveraged operations will require cash support in 1983. Inspiration Resources Group financial statements and a discussion thereof are included in this Circular.

Dividends

Payments of cash dividends of \$Cdn1.0 million or 10 cents per share were made in 1982 which compared to \$Cdn10.6 million or \$Cdn1.05 per share in 1981 and \$Cdn12.1 million or \$Cdn1.20 per share in 1980. Payments were made quarterly at the rate of 30 cents per share until the fourth quarter of 1981 at which time the rate was reduced to 15 cents per share, then decreased to 10 cents per share in the first quarter of 1982 and then suspended indefinitely.

In addition, on December 31, 1982, HBMS paid a stock dividend of 20 cents per share and as a result issued 129,305 shares at a stated price of \$Cdn15.15 per share for a total value of \$Cdn2.0 million and paid \$Cdn61,000 in cash in lieu of fractional shares.

The Board of Directors regularly reviews HBMS' financial position, its operating results and considers future developments and opportunities. In light of these factors, the Board establishes dividend declarations in cash or shares or passes on quarterly dividends. In general, dividends payable to nonresidents of Canada are subject to withholding taxes at tax treaty rates, where applicable.

Impact of Inflation and Changing Prices

In the shorter term, metal prices are more sensitive to supply and demand factors than to inflation. In the last few years, unit costs of production have included steadily rising labour and energy costs. Current replacement cost of productive mineral properties and metallurgical plants is much higher than the cost of existing facilities. Ore bodies in the metals business are unique and not replaceable at will. Past costs are considered to be sunk and

investment decisions are made on the basis of expected future cash flows. If operating results had been recalculated on a current cost basis, the results would most likely have been unfavourable compared to historic results. The resulting figures would depend too much on matters of opinion and judgment to be of real value to shareholders.

1982 Compared with 1981

HBMS' net sales decreased by 14% as the result of falling metal prices and reduced sales volumes. Weak copper prices during 1981 and 1982 reflected soft business conditions in the principal copper consuming sectors, notably the building, automotive and appliance industries.

Interest income decreased 14% from 1981 to \$Cdn7.0 million; \$Cdn5.4 million of this related to the Island Falls power plant proceeds. HBMS' earnings from the Whitehorse Copper joint venture changed from earnings of \$Cdn6.7 million in 1981 to a loss of \$Cdn2.3 million in 1982. The economic reserves at Whitehorse Copper were exhausted by year end and the mine terminated production on December 31, 1982.

Production cutbacks and cost cutting measures during 1982 successfully decreased consolidated cost of sales by 7% and productivity improvement programs contained unit costs. Personnel levels were reduced during 1982 while maintaining production capacity rates. Exploration work continued throughout Canada in the first half of 1982 and was cut back in the last half of the year.

HBMS' share of Tanco's earnings in 1982 was \$Cdn0.3 million compared to \$Cdn2.9 million in 1981. High levels of tantalum inventories resulting from extremely weak markets forced the suspension of operations at December 31, 1982, for an indefinite period.

HBMS recorded an extraordinary gain in 1982 of \$Cdn55.5 million on the sale of the Island Falls power plant. An interim payment on this sale was received in 1981 but, as total compensation for the plant had not been determined, a net amount of \$Cdn33.6 million was shown as deferred income in the 1981 consolidated statement of financial position. The final payment was received in November 1982, at which time the 1981 deferred income and the 1982 receipt were recognized as an extraordinary item.

1981 Compared with 1980

Consolidated net sales decreased by 5%. Although copper production set a new annual production record for Canadian Metals, sales volumes and prices were disappointing. The average 1981 price of zinc increased by 9% over the average 1980 price; however, the price turned down sharply in the fourth quarter of 1981 due to sagging automotive and construction demand. Zinc production was lower in 1981 as a direct result of purchased concentrate shortages. Gold and silver prices also declined throughout 1981.

Interest income decreased by 30% from 1980 as the high short-term rates during 1981 were offset by the lower cash position of HBMS. Whitehorse Copper joint venture earnings decreased \$Cdn4.1 million from the 1980 record levels, mainly as the result of low copper prices in 1981. HBMS recorded a \$Cdn3.2 million gain on forward copper sales in the first half of 1981 which did not occur in 1980.

Operating costs in Canadian Metals continued to escalate during 1981 due to higher than normal increases in the cost of labour, energy and supplies. Increased energy costs were directly associated with the sale of the Island Falls power plant on April 1, 1981. External power requirements for the Flin Flon/Snow Lake operations are now supplied by Manitoba Hydro at substantially increased costs. Exploration expenses decreased substantially, to \$Cdn3.9 million, mainly as the result of the capitalization of the Tom Valley project during 1981. It was determined that this project had entered the pre-development stage and, according to HBMS' accounting policy, \$Cdn4.0 million of prior years' expenditures were credited to earnings in 1981.

Tanco experienced a slow 1981 as markets softened dramatically for its product. HBMS' share of Tanco's earnings was \$Cdn2.9 million in 1981 and 1980.

There were no extraordinary items in 1981, while in 1980 HBMS recorded a gain of \$Cdn19.5 million on the sale of its shares in Rosario Resources and recorded the application of tax losses carried forward of \$Cdn2.2 million.

AUDITORS' REPORT

To the Directors of
Hudson Bay Mining and Smelting Co., Limited:

We have examined the consolidated statement of financial position of Hudson Bay Mining and Smelting Co., Limited as at December 31, 1982 and 1981 and the consolidated statements of earnings (loss), retained earnings and changes in financial position for each of the years in the five-year period ended December 31, 1982. Our examinations were made in accordance with auditing standards generally accepted in Canada, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the years in the five-year period ended December 31, 1982 in accordance with accounting principles generally accepted in Canada applied on a consistent basis, after restatement of the consolidated financial statements for the years 1978 to 1981 as explained in Note 1.

Toronto, Canada
March 21, 1983; as to
Note 2, May 14, 1983

Deloitte Haskins + Sells
Chartered Accountants

HUDSON BAY MINING AND SMELTING CO., LIMITED

CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

For the years ended December 31, 1982, 1981, 1980, 1979 and 1978

	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
	(\$Cdn in thousands)				
REVENUES:					
Net sales	\$249,992	\$291,688	\$308,658	\$271,520	\$185,692
Interest and other income (Note 11) ...	5,248	20,999	23,528	7,654	11,496
	<u>255,240</u>	<u>312,687</u>	<u>332,186</u>	<u>279,174</u>	<u>197,188</u>
COSTS AND EXPENSES:					
Cost of sales	254,628	274,150	248,318	212,984	164,822
Depreciation, depletion and amortization	24,192	27,555	23,732	20,819	16,790
Exploration expenses	6,005	3,865	9,701	4,256	3,326
General administrative expenses	10,867	9,748	8,480	7,175	7,028
Interest	17,131	8,261	8,515	8,362	8,208
	<u>312,823</u>	<u>323,579</u>	<u>298,746</u>	<u>253,596</u>	<u>200,174</u>
Earnings (loss) before the undernoted items	(57,583)	(10,892)	33,440	25,578	(2,986)
Provision (benefit) for income taxes, mining taxes and royalties (Note 12) ...	<u>(19,287)</u>	<u>(3,296)</u>	<u>8,850</u>	<u>9,323</u>	<u>(1,318)</u>
EARNINGS (LOSS) FROM OPERATIONS	(38,296)	(7,596)	24,590	16,255	(1,668)
Share of earnings (losses) of associated companies (Note 3)	<u>(25,901)</u>	<u>(3,157)</u>	<u>16,851</u>	<u>12,140</u>	<u>6,868</u>
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	(64,197)	(10,753)	41,441	28,395	5,200
EXTRAORDINARY ITEMS (Note 13):					
Gain on sale of power plant	55,508	—	—	—	—
Gain on sale of investment	—	—	19,500	—	—
Application of tax losses carried forward	<u>—</u>	<u>—</u>	<u>2,167</u>	<u>3,221</u>	<u>—</u>
NET EARNINGS (LOSS) FOR THE YEAR	<u>\$ (8,689)</u>	<u>\$ (10,753)</u>	<u>\$ 63,108</u>	<u>\$ 31,616</u>	<u>\$ 5,200</u>
EARNINGS (LOSS) PER SHARE (Note 10):					
Before extraordinary items	<u>\$ (6.27)</u>	<u>\$ (1.05)</u>	<u>\$ 4.05</u>	<u>\$ 2.78</u>	<u>\$ 0.51</u>
After extraordinary items	<u>\$ (0.85)</u>	<u>\$ (1.05)</u>	<u>\$ 6.17</u>	<u>\$ 3.09</u>	<u>\$ 0.51</u>

See accompanying notes to the consolidated financial statements.

HUDSON BAY MINING AND SMELTING CO., LIMITED
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended December 31, 1982, 1981, 1980, 1979 and 1978

	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
	(\$Cdn in thousands)				
RETAINED EARNINGS AT BEGINNING OF THE YEAR	\$244,049	\$265,409	\$214,423	\$190,888	\$185,688
NET EARNINGS (LOSS) FOR THE YEAR	<u>(8,689)</u>	<u>(10,753)</u>	<u>63,108</u>	<u>31,616</u>	<u>5,200</u>
	235,360	254,656	277,531	222,504	190,888
DIVIDENDS (Note 10)	<u>3,031</u>	<u>10,607</u>	<u>12,122</u>	<u>8,081</u>	<u>—</u>
RETAINED EARNINGS AT END OF THE YEAR	<u><u>\$232,329</u></u>	<u><u>\$244,049</u></u>	<u><u>\$265,409</u></u>	<u><u>\$214,423</u></u>	<u><u>\$190,888</u></u>

See accompanying notes to the consolidated financial statements.

HUDSON BAY MINING AND SMELTING CO., LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1982, 1981, 1980, 1979 and 1978

	1982	1981	1980	1979	1978
	(\$Cdn in thousands)				
WORKING CAPITAL PROVIDED:					
Operations:					
Earnings (loss) from operations.	\$(38,296)	\$ (7,596)	\$ 24,590	\$ 16,255	\$ (1,668)
Depreciation, depletion and amortization	24,192	27,555	23,732	20,819	16,790
Deferred taxes	(22,187)	1,539	3,097	8,573	(2,024)
Dividends from associated companies (Note 3)	2,400	2,975	5,719	1,785	3,007
Other	(337)	(24)	1,913	(383)	2,045
	<u>(34,228)</u>	<u>24,449</u>	<u>59,051</u>	<u>47,049</u>	<u>18,150</u>
Proceeds from long-term debt	30,000	—	—	—	295
Reorganization of petroleum interests (Note 3)	20,029	—	—	—	—
Sale of power plant (Note 13)	21,896	33,612	—	—	—
Sale of investments (Note 13)	—	—	47,848	1,010	—
	<u>37,697</u>	<u>58,061</u>	<u>106,899</u>	<u>48,059</u>	<u>18,445</u>
WORKING CAPITAL APPLIED:					
Dividends	1,072	10,607	12,122	8,081	—
Investment in associated companies (Note 3)	2,522	12,943	637	18,202	21,582
Investment in subsidiary company (Note 4)	—	—	—	—	5,497
Other investments	(1,520)	4,653	4,413	25,548	424
Property, plant and equipment	43,285	80,310	36,648	37,545	46,811
Reduction of long-term debt	4,002	3,405	3,395	1,764	1,380
Increase in other assets	805	3,572	3,005	1,059	434
	<u>50,166</u>	<u>115,490</u>	<u>60,220</u>	<u>92,199</u>	<u>76,128</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(12,469)	(57,429)	46,679	(44,140)	(57,683)
WORKING CAPITAL AT BEGINNING OF THE YEAR	44,090	101,519	54,840	98,980	156,663
WORKING CAPITAL AT END OF THE YEAR	<u>\$ 31,621</u>	<u>\$ 44,090</u>	<u>\$101,519</u>	<u>\$ 54,840</u>	<u>\$ 98,980</u>
CHANGES IN WORKING CAPITAL:					
Increase (decrease) in current assets:					
Cash and short-term deposits.	\$ (4,617)	\$(68,615)	\$ 54,259	\$(45,862)	\$(57,922)
Accounts receivable	20,505	(5,467)	(4,252)	10,913	1,198
Inventories	(27,981)	15,175	14,614	4,528	3,783
Income taxes recoverable	(867)	2,173	(684)	(902)	1,062
	<u>(12,960)</u>	<u>(56,734)</u>	<u>63,937</u>	<u>(31,323)</u>	<u>(51,879)</u>
(Increase) decrease in current liabilities:					
Short-term borrowings	10,355	(9,657)	(698)	—	—
Accounts payable and accrued liabilities	631	1,486	(6,553)	(12,817)	(5,790)
Income and other taxes payable.	—	6,028	(6,028)	—	—
Due to shareholder	(8,606)	—	—	—	—
Current portion of long-term debt ..	(1,889)	1,448	(3,979)	—	(14)
	<u>491</u>	<u>(695)</u>	<u>(17,258)</u>	<u>(12,817)</u>	<u>(5,804)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (12,469)</u>	<u>\$ (57,429)</u>	<u>\$ 46,679</u>	<u>\$ (44,140)</u>	<u>\$ (57,683)</u>

See accompanying notes to the consolidated financial statements.

HUDSON BAY MINING AND SMELTING CO., LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
	(\$Cdn in thousands)	
CURRENT ASSETS:		
Cash and short-term deposits	\$ 6,243	\$ 10,860
Accounts receivable	41,503	20,998
Inventories	54,495	82,476
Income taxes recoverable	1,306	2,173
Total current assets	<u>103,547</u>	<u>116,507</u>
Deduct:		
CURRENT LIABILITIES:		
Short-term borrowings (Note 6)	—	10,355
Accounts payable and accrued liabilities	58,886	59,517
Due to shareholder (Note 3)	8,606	—
Current portion of long-term debt	4,434	2,545
Total current liabilities	<u>71,926</u>	<u>72,417</u>
WORKING CAPITAL	31,621	44,090
Add:		
Investment in associated companies (Note 3)	140,874	186,682
Other investments (Note 4)	15,896	17,416
Property, plant and equipment (Note 7)	246,410	227,317
Other assets	14,975	14,170
CAPITAL EMPLOYED	<u>449,776</u>	<u>489,675</u>
Deduct:		
Commitments and contingencies (Note 8)		
Long-term debt (Note 9)	90,229	64,231
Deferred income	—	33,612
Deferred taxes	54,012	76,536
	<u>144,241</u>	<u>174,379</u>
SHAREHOLDERS' INVESTMENT	<u>\$305,535</u>	<u>\$315,296</u>
INVESTMENT REPRESENTED BY:		
Share capital (Note 10)	\$ 73,206	\$ 71,247
Retained earnings	232,329	244,049
TOTAL SHAREHOLDERS' INVESTMENT	<u>\$305,535</u>	<u>\$315,296</u>

Approved by the Board of Directors

(Signed) R.F. Richards, Director

(Signed) A.T. Lambert, Director

See accompanying notes to the consolidated financial statements.

HUDSON BAY MINING AND SMELTING CO., LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1982, 1981, 1980, 1979 and 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles:

The financial statements are prepared in conformity with accounting principles generally accepted in Canada and are presented in Canadian dollars.

Principles of consolidation:

The consolidated financial statements include the accounts of Hudson Bay Mining and Smelting Co., Limited (HBMS) and all companies more than 50%-owned. In addition, HBMS follows the equity method of accounting for its interest in associated companies in which it owns from 20% to 50% of the common shares and exercises a significant influence.

Basis of financial statement presentation:

As more fully explained in Note 3(a) and Note 3(b), HBMS reorganized its petroleum interests in 1982 and its interests in Terra (agricultural chemicals) in 1981. Prior to these reorganizations, these interests had been included in the HBMS financial statements on a consolidated basis. After the reorganizations, these interests have been accounted for using the equity method of accounting. For purposes of comparison, all HBMS financial statements included herein, prior to these reorganizations, have been restated to account for these interests using the equity method. While assets, liabilities, revenues, and costs and expenses have changed as a result of the restatements, net earnings (loss), earnings (loss) per share and retained earnings did not change as a result of the restatements.

In 1980, due to the increasing significance of timing differences and to ensure a more appropriate allocation of mining tax costs against earnings, HBMS changed its method of accounting for mining taxes from the taxes payable to the tax allocation method. The change was made retroactively and reduced previously reported earnings for the year ended December 31, 1979 by \$Cdn2,403,000 (24 cents per share), and increased previously reported earnings for the year ended December 31, 1978 by \$Cdn107,000 (1 cent per share). This change resulted in a cumulative reduction of \$Cdn116,000 in retained earnings at December 31, 1979 and cumulative increases of \$Cdn2,287,000 at December 31, 1978 and \$Cdn2,180,000 at December 31, 1977.

Inventories:

Inventories consist substantially of metals and metal products. Metals and all other saleable products are valued at the lower of cost or estimated net realizable value; metal by-products are valued at estimated net realizable value. Cost is determined on the first-in, first-out basis.

Property, plant and equipment:

Mineral properties—Exploration costs with respect to mines operating, or in the development stage, are capitalized as mineral properties and amortized by the unit-of-production method based on estimated recoverable reserves; all other mineral exploration costs are written off to expense as incurred. Expenditures for projects deemed commercially productive are capitalized with a corresponding credit to earnings at the time this determination is made.

Mine development expenditures—Expenditures on major mine development are capitalized and amortized by the unit-of-production method for each mine based on related estimated recoverable reserves.

Plant and equipment—Expenditures for plant and equipment additions, major replacements and improvements are capitalized; the cost of maintenance and repairs is charged to operating expense as incurred. Depreciation of mineral plant and equipment is charged to operations by the unit-of-production method based on estimated recoverable reserves. Depreciation of other plant and equipment is charged to operations, generally on a straight-line basis over their estimated useful lives.

Income and mining taxes:

HBMS follows a tax allocation method of providing for income and mining taxes. Deferred taxes represent primarily tax reductions for expenditures on mine development, exploration and depreciation deducted in the determination of taxable income but not yet charged to earnings. Investment tax credits are recorded when utilized. In addition, taxes otherwise payable on the sale of the potash division assets in 1977 have been included in deferred taxes. These taxes otherwise payable can be eliminated by allocation of eligible Canadian expenditures on natural resources exploration and development. The expenditures, so allocated, are not available for deduction from taxable income.

Foreign currency translation:

Foreign currencies have been translated into Canadian dollars as follows: revenue, costs and expenses of foreign subsidiaries at the average rates of exchange for the period; noncurrent assets (including depreciation, depletion and amortization thereof) and noncurrent liabilities at rates in effect at dates of transactions; current assets and current liabilities at rates in effect at the end of the year. Gains and losses on currency translation are included in the consolidated statement of earnings (loss).

2. PROPOSED REORGANIZATION

HBMS, Minerals and Resources Corporation Limited (Minorco) and Inspiration Resources Corporation (Inspiration Resources, formerly Plateau Holdings Inc.) entered into an agreement dated as of May 14, 1983 setting out the terms of a reorganization, which is conditional upon the approval of HBMS shareholders, regulatory authorities and a court. The proposed reorganization will pool the joint interests of HBMS and Minorco in the Inspiration Resources Group (formerly Plateau Group) with HBMS' other interests into a U.S. public company, with HBMS as a Canadian subsidiary. After completion of the proposed reorganization, it is anticipated that, subject to market conditions, public offerings of additional equity shares will be made. Minorco has agreed to purchase approximately US\$80,000,000 of additional share capital.

HBMS, through its major (44%) shareholder, Minorco Canada Limited (Mincan), is associated with Minorco, which indirectly owns 100% of Mincan. Minorco and HBMS jointly own Trend International Limited (Trend) (Note 3) and Inspiration Resources. Inspiration Resources, a U.S. holding company, in turn owns all of the common stock of Inspiration Coal Inc. (Inspiration Coal), Inspiration Consolidated Copper Company (Inspiration Copper), Inspiration Mines Inc. (Inspiration Mines), and Terra Chemicals International, Inc. (Terra). The jointly owned companies comprise the Inspiration Resources Group.

Under the terms of the proposed reorganization, HBMS shareholders, other than Minorco, through Mincan, will be offered the option of converting their common shares into special shares of HBMS on the basis of 1.10 special shares for each existing common share. As an alternative, to encourage an increased public participation in the common shares of Inspiration Resources, HBMS shareholders, other than Mincan, will be offered the opportunity to elect, at the time of the reorganization, to exchange directly for Inspiration Resources common shares on the basis of 1.15 Inspiration Resources common shares for each existing HBMS common share.

Minorco has agreed that the premium in Inspiration Resources offered to HBMS shareholders, other than Mincan, will be provided by a corresponding reduction of Minorco's direct and indirect equity in Inspiration Resources. As a result of these transactions and assuming subsequent full exercise of the exchange rights attached to the HBMS special shares, the ownership in Inspiration Resources by shareholders, other than Minorco, will be approximately 40%. Minorco has indicated, however, that it will initially hold less than 50% of the voting rights in Inspiration Resources.

The special shares of HBMS will be non-voting in HBMS but arrangements will be made so that each special share will have the same vote in Inspiration Resources as each Inspiration Resources common share. The special shares will be entitled to dividends in the same amounts, if any, as are payable on the Inspiration Resources common shares and will be exchangeable for Inspiration Resources common shares for a period of ten years, which period may be extended at HBMS' option, on the basis of one Inspiration Resources common share for each special share subject to adjustment in accordance with the share conditions of the HBMS special shares. After that period, the remaining special shares will be automatically exchanged into Inspiration Resources common shares on a one-for-one basis subject to such adjustments. Subject to the requisite

approvals, the special shares will be listed in Canada, and the common shares of Inspiration Resources will be listed in the U.S.

As a condition of the proposed reorganization, Inspiration Resources has agreed to guarantee the payment obligations of HBMS under the trust indentures covering HBMS' 9% and 10½% unsecured debentures. As at December 31, 1982 the total debentures outstanding amounted to \$Cdn63,756,000.

3. INVESTMENT IN ASSOCIATED COMPANIES

A significant portion of the operations of HBMS are conducted through associated companies. With the exception of Tantalum Mining Corporation of Canada Limited (Tanco), these associated companies are jointly owned with Minorco (Note 2).

	% of common share ownership			
	1982	1981	1982	1981
			(\$Cdn in thousands)	
Total investments:				
Inspiration Resources Group	50.0%	50.0%	\$128,960	\$ 89,490
Francana (Note (a) below)	—	57.9%	—	81,629
Tanco	37.5%	37.5%	4,593	6,476
Other companies			104	104
Equity in net assets			133,657	177,699
Advances			356	(2,501)
Unamortized excess cost of investments over equity in net assets			6,861	11,484
			<u>\$140,874</u>	<u>\$186,682</u>

	1982	1981	1980	1979	1978
	(\$Cdn in thousands)				
Share of earnings (losses):					
Inspiration Resources Group:					
Inspiration Coal	\$ (7,159)	\$ (1,841)	\$ (26)	\$ —	\$ —
Inspiration Copper	(17,348)	(13,511)	(10,745)	2,047	(2,560)
Inspiration Mines	(527)	(1,905)	—	—	—
Terra	(2,443)	5,012	—	—	—
Trend	9,442	—	—	—	—
Inspiration Resources and other	(6,586)	(1,403)	(205)	—	—
Francana (Note (a) below)	(1,624)	7,572	17,821	7,488	6,378
Tanco	344	2,919	2,885	1,563	290
Terra (Note (b) below)	—	—	7,134	1,028	2,273
Other	—	—	(13)	14	487
	<u>\$ (25,901)</u>	<u>\$ (3,157)</u>	<u>\$ 16,851</u>	<u>\$ 12,140</u>	<u>\$ 6,868</u>

	1982	1981	1980	1979	1978
	(\$Cdn in thousands)				
Dividends received:					
Inspiration Resources Group (Terra)	\$ —	\$ 1,100	\$ —	\$ —	\$ —
Tanco	2,400	1,875	4,125	113	—
Terra (Note (b) below)	—	—	1,594	1,672	3,007
	<u>\$ 2,400</u>	<u>\$ 2,975</u>	<u>\$ 5,719</u>	<u>\$ 1,785</u>	<u>\$ 3,007</u>

	1982	1981	1980	1979	1978
	(\$Cdn in thousands)				
Changes in investment positions:					
Inspiration Resources Group:					
Inspiration Coal	\$ —	\$ 5,247	\$ —	\$ —	\$ —
Inspiration Copper	—	6,988	128	16,380	16,576
Inspiration Mines	—	488	—	—	—
Inspiration Resources	(20)	(10)	30	—	—
Terra	—	875	—	—	—
Francana (Note (a) below)	—	(120)	1,219	—	—
Tanco	2,744	(525)	(1,875)	111	5,006
Terra (Note (b) below)	—	—	1,034	1,475	—
Other	(202)	—	101	236	—
	<u>\$ 2,522</u>	<u>\$ 12,943</u>	<u>\$ 637</u>	<u>\$ 18,202</u>	<u>\$ 21,582</u>

- (a) HBMS restructured its petroleum interests effective May 1982, following the completion of an arrangement involving HBMS, Francana Oil & Gas Ltd. (Francana), Trend, Mincan and Sceptre Resources Limited (Sceptre), an unrelated third party. Prior to the arrangement, Francana was 58% owned by HBMS and 17% owned by Mincan; Trend was 57% owned by Francana. Francana's 27% interest in Adobe Oil & Gas Corporation was transferred to Trend together with an assumption by Trend of related long-term debt; Francana's Canadian operations were disposed of to Sceptre. Francana's resultant equity interest and convertible preferred shares in Trend were transferred to HBMS. The restructuring was treated as a reorganization and accordingly did not result in any gain or loss. Certain assurances regarding the non-occurrence of income tax consequences of the arrangement were received by Francana and Sceptre from Canadian government authorities, although not in the form of an advance income tax ruling.

Trend is 50% owned by HBMS as a result of the arrangement, and it has been treated as an associated company in the Inspiration Resources Group for 1982. The consolidated financial statements have been restated to include the investment in Francana as a separate associated company. Trend has been included with the investment in Francana in each of the years 1978 to 1981.

The equalization, between HBMS and Minorco, of equity ownership in Trend was accomplished by the redemption of Trend's convertible preferred shares held by HBMS for cash proceeds, net of related expenses, of \$Cdn28,635,000 on December 31, 1982. The \$Cdn8,606,000 note payable to Mincan, relating to the arrangement, was repaid in January 1983.

HBMS' previous \$Cdn84,670,000 investment in Francana was reduced by provision for equalization of equity ownership with Minorco (net \$Cdn20,029,000) which resulted in HBMS' carrying value of \$Cdn64,641,000 in Trend immediately after the May 1982 arrangement.

- (b) HBMS' interest in Terra was reduced from approximately 54% to 50% of the outstanding common shares effective June 30, 1981, following a cash merger transaction with Inspiration Resources. Inspiration Resources acquired all of the common stock outstanding and 63% of the preferred stock outstanding of Terra for a total consideration of \$US120,227,000 of which approximately \$US69,080,000 related to the common and preferred stock previously owned by HBMS. This transaction was treated as a reorganization and accordingly did not result in any disposition gain or loss. The consolidated financial statements were restated to include the investment in Terra as a separate associated company in each of the years 1978 to 1980 and as part of the Inspiration Resources Group for 1981.
- (c) Inspiration Resources completed the following investment transactions in the five-year period ended December 31, 1982:
- (i) In February 1982, Inspiration Resources, through Inspiration Coal, acquired the Wheelwright, Kentucky coal properties, excluding working capital, of Island Creek Coal Company, at a cost of \$US26,000,000. This acquisition was financed by \$US17,000,000 of 14%, 5-year notes (repaid in full in October 1982) with the balance paid in cash by Inspiration Resources without contribution from its

shareholders. Additionally, Inspiration Coal assumed certain contingent liabilities under which future payments, if any, would be treated as a retroactive adjustment to the purchase price.

- (ii) Inspiration Resources purchased \$US130,000 of additional common stock of Inspiration Copper in 1982; \$US204,000 in 1981; \$US219,000 in 1980; \$US29,447,000 in 1979; \$US38,519,000 in 1978. The purchases increased Inspiration Resources' common share ownership from 38.5% at June 6, 1978 to 100% effective January 1, 1979. As at December 31, 1982, Inspiration Resources has undertaken to purchase for \$US848,000 additional common shares upon the redemption of preferred shares held by minority interests.

In addition, Inspiration Resources purchased \$US92,000 of common stock and \$US9,057,000 of preferred stock of Inspiration Copper and advanced \$US33,724,000 of contributed surplus to Inspiration Copper during 1982. During 1981, Inspiration Resources purchased \$US19,323,000 of preferred stock of Inspiration Copper. These purchases and advances were made to maintain the required tangible net worth of Inspiration Copper under that company's revolving credit facility.

HBMS' cash cost of the above transactions was nil in 1982; \$Cdn6,988,000 in 1981; \$Cdn128,000 in 1980; \$Cdn16,380,000 in 1979; \$Cdn16,576,000 in 1978; equal amounts were provided by Minorco and the balance by Inspiration Resources working capital.

- (iii) Effective July 8, 1981, Inspiration Resources, through Inspiration Coal, acquired 100% of the common stock outstanding of Sovereign Coal Group, Inc., of Bluefield, West Virginia and its associated company, Harman Mining Corporation of Harman, Virginia. Total cost of the acquisition was approximately \$US151,602,000 including redundant working capital of \$US59,602,000 for a net cost attributable to coal assets of \$US92,000,000. A portion of the redundant assets was used to fund the purchase, with the balance of the acquisition being financed by notes to the vendors. The cost exceeded Inspiration Coal's equity in the underlying net assets by \$US85,659,000 which was allocated to assets.
- (iv) Effective January 1, 1981, Inspiration Resources, through Inspiration Coal, acquired 100% of the common stock outstanding of Bailey Mining Co., Inc. (Bailey), a coal mining operation, of Bypro, Kentucky, for a purchase price of \$US250,000 and subsequent advances of \$US8,310,000 which exceeded Inspiration Coal's equity in the underlying net assets by \$US2,697,000.

The Sovereign and Bailey acquisitions (noted above) were accounted for using the purchase method and goodwill is being amortized on a basis consistent with HBMS policy.

- (d) Effective November 1978, HBMS acquired a 37.5% interest in Tanco for a cash consideration of \$Cdn5,006,000, which exceeded HBMS' equity in the underlying net assets by \$Cdn2,700,000.

The unamortized excess cost of investments in associated companies over equity in net assets is being written off against HBMS' share of earnings, generally over a period not exceeding 20 years.

4. OTHER INVESTMENTS

	1982	1981
	(\$Cdn in thousands)	
Whitehorse Copper joint venture.....	\$ 7,428	\$ 8,640
Other—at cost:		
Quoted (market value 1982—\$Cdn1,744,000; 1981—\$Cdn907,000).....	1,866	1,904
Unquoted	14,383	14,283
	23,677	24,827
Less provision for decline in value	7,781	7,411
	<u>\$15,896</u>	<u>\$17,416</u>

HBMS increased its interest in Whitehorse Copper Mines Ltd. to 100% on July 1, 1978. The purchase consideration was assigned as follows:

	(\$Cdn in thousands)
Property, plant and equipment (net)	\$ 2,681
Investment in joint venture	7,958
	<u>10,639</u>
Noncurrent liabilities	290
	<u>10,349</u>
Investment at effective date of acquisition	4,852
Cost of acquisition less working capital acquired of \$Cdn3,025,000	<u>\$ 5,497</u>

HBMS makes provision, in amounts which it considers prudent, for declines in value of investments. The Whitehorse Copper joint venture investment at December 31, 1982 consisted substantially of concentrate inventories which will be realized in 1983.

5. SUPPLEMENTARY INFORMATION

(a) Geographic areas:

Financial data for 1982, 1981, 1980, 1979 and 1978 by geographic areas for HBMS' only business segment are included on page 120 of this Circular.

(b) Significant investments accounted for on the equity method:

Selected information by business segment and geographic area for the Inspiration Resources Group (jointly owned with Minorco) in a combined form are included on page 120 of this Circular.

6. SHORT-TERM LINES OF CREDIT AND BORROWINGS

HBMS and its subsidiaries have unused short-term lines of credit with banks at December 31, 1982 aggregating approximately \$Cdn46,147,000; interest is generally at money market rates on an as-quoted basis.

The maximum amounts of short-term borrowings outstanding during 1982, 1981, 1980, 1979 and 1978 were \$Cdn10,000,000, \$Cdn23,000,000, \$Cdn29,000,000, \$Cdn7,000,000 and nil respectively, and the approximate average amounts outstanding during each year were \$Cdn1,178,000, \$Cdn2,281,000, \$Cdn3,100,000, \$Cdn700,000 and nil respectively, with weighted average annual interest rates of 12.2%, 18.8%, 13.8%, 14.6% and nil. The averages were calculated on a daily basis.

7. PROPERTY, PLANT AND EQUIPMENT

	1982	1981	1980
	(\$Cdn in thousands)		
Mineral property, plant and equipment	\$313,237	\$284,072	\$242,394
Less accumulated depreciation and depletion	130,004	121,254	125,871
	<u>183,233</u>	<u>162,818</u>	<u>116,523</u>
Unamortized mine development expenditures	49,604	50,945	46,168
Materials and supplies—at cost	13,573	13,554	11,871
	<u>\$246,410</u>	<u>\$227,317</u>	<u>\$174,562</u>

8. COMMITMENTS AND CONTINGENCIES

(a) HBMS and Minorco have each guaranteed half of the \$US138,946,000 revolving-term credit facility of Inspiration Resources which was used to secure principal and interest payments on instalment notes repaid January 15, 1983 to the vendors of Sovereign Coal Group, Inc. and Harman Mining Corporation and to provide financing of working capital for Inspiration Resources. The facility provides for a reduction in the available commitment to \$US126,000,000 on January 15, 1983, \$US112,000,000 on July 15, 1983 and further reductions to \$US84,000,000 by July 31, 1985.

HBMS and Minorco each advanced \$US30,000,000 to Inspiration Resources on January 17, 1983 to assist in repaying the instalment notes with the balance of the required funds being advanced under the revolving-term credit facility. Should the proposed reorganization (Note 2) not proceed, the shareholders have agreed to capitalize the advances on or before December 30, 1983. The shareholders' advances bear interest at the London Inter-bank Offering Rate plus three-quarters of 1%.

- (b) HBMS and Minorco have each provided written assurance to the group of three banks funding the revolving credit agreement for \$US150,000,000 at Inspiration Copper. The revolving credit agreement and related loan agreements have certain smelter production tests and place certain limitations on working capital, indebtedness, cash flow, tangible net worth, liens and unfunded vested accrued benefits of Inspiration Copper. The amount outstanding at December 31, 1982 was \$US69,926,000 under the revolving credit agreement and a further net amount of \$US10,786,000 was outstanding under letters of credit supporting the Industrial Development Authority of Gila County, Arizona tax-free Pollution Control Revenue Bonds.
- (i) Under the tangible net worth covenant, Inspiration Copper is required to maintain consolidated tangible net worth of at least \$US90,000,000 until December 30, 1984, at which time the requirement increases to \$US125,000,000. During 1982, compliance with the minimum tangible net worth requirement was met by Inspiration Resources purchasing \$US9,057,000 of class A preferred shares and \$US222,000 of common stock and injecting \$US33,724,000 in contributed surplus into Inspiration Copper. In 1981, Inspiration Resources purchased \$US19,323,000 of class A preferred shares. Due to the anticipated continuation of operating losses during 1983, it is likely that additional capital contributions will be required. Inspiration Resources has indicated its present intention to provide or otherwise arrange sufficient financial support to Inspiration Copper to maintain compliance with the tangible net worth requirement in 1983.
 - (ii) The cash flow covenant, which commences June 30, 1983, requires Inspiration Copper to maintain a ratio of 1.0:1 through December 31, 1984 and 1.5:1 thereafter, of consolidated cash flow to the sum of the current portion of long-term liabilities and interest paid for the preceding four fiscal quarters. Due to the losses in the last two quarters of 1982 and the projected losses in the first two quarters of 1983, Inspiration Copper will be unable to meet this covenant. Inspiration Copper has obtained an agreement amendment, for 1983, from the banks, which allows capital contributions from Inspiration Resources to be included in the definition of cash flow. Inspiration Resources has indicated its present intention to provide or otherwise arrange sufficient financial support to Inspiration Copper to enable Inspiration Copper to satisfy the cash flow requirement.
 - (iii) The smelter production covenant requires Inspiration Copper's smelter capacity to be a minimum of 99,000 tons of copper per year for 1982, 133,000 tons by December 31, 1983 and 160,000 tons by December 31, 1984. During 1982, prior to the shutdown of Inspiration Copper's major toll customer, the smelter operated at an annual production level well in excess of the required 99,000 tons. Inspiration Copper is presently re-evaluating its smelter options in light of the probable loss of its major toll customer after the third quarter of 1984, which may preclude its reaching the 133,000 ton level by the end of 1983. Inspiration Copper and the banks continue to discuss this requirement.
 - (iv) Inspiration Copper and Inspiration Resources have also agreed to approach the group of three banks to further renegotiate the terms and conditions of the revolving credit agreement following conclusion of the proposed reorganization (Note 2) and in any event no later than December 31, 1983.
- (c) Inspiration Coal was fully drawn under its existing credit facilities at January 17, 1983. Inspiration Resources has given assurances that its present intention is to continue to provide or otherwise arrange sufficient support to meet the financial obligations of Inspiration Coal.
- (d) During 1978, HBMS received a reassessment notice from the Department of National Revenue disallowing the deduction of a nonrefundable contribution for construction to Manitoba Hydro made in 1973, which was, in the opinion of HBMS, a proper deduction. On the advice of its counsel, HBMS filed a Notice of Objection to the reassessment. The Department formally confirmed the reassessment on January 10, 1983 and HBMS will be filing an appeal to the Federal Court of Canada. Income taxes, penalties and interest paid with respect to the reassessment, aggregating \$Cdn2,100,000, have not been charged to earnings pending settlement of the reassessment. Should the reassessment be upheld, the tax and related costs would be charged to retained earnings as a prior period adjustment.
- (e) HBMS sold its potash division assets in 1977 and the resulting gain on disposition was deferred for tax purposes. HBMS has the option of eliminating the tax on the deferred gain by allocating Canadian exploration and development expenses incurred for a ten-year period ending in 1987. At the end of that period, any remaining gain would be added to 1977 taxable income with interest applied for the full ten-year period. The unallocated balance at December 31, 1982 was \$Cdn30,000,000, after a proposed allocation for 1982 of approximately \$Cdn20,000,000.

9. LONG-TERM DEBT

	1982	1981
	(\$Cdn in thousands)	
9% unsecured debentures due 1991 (Note (a) below)	\$19,881	\$19,996
10½% unsecured debentures due 1995 (1982—\$US43,214,000; 1981—\$US45,474,000) (Note (b) below)	43,875	46,169
Revolving credit facility (Note (c) below)	30,000	—
Mortgage loans	222	247
	93,978	66,412
Included in current liabilities	3,749	2,181
	<u>\$90,229</u>	<u>\$64,231</u>

- (a) Under the trust indenture covering the 9% unsecured debentures, sinking fund payments sufficient to retire \$Cdn800,000 of principal amount are required each year until 1990. Debentures amounting to \$Cdn5,119,000 (principal amount) have been purchased by HBMS and cancelled. Therefore, no sinking fund payments have been required to date and \$Cdn319,000 is available for application against the 1983 sinking fund requirements.
- (b) Under the trust indenture covering the 10½% unsecured debentures, sinking fund payments sufficient to retire \$US3,330,000 of principal amount are required each year until 1994. Debentures amounting to \$US6,786,000 have been purchased by HBMS and cancelled. Therefore, no sinking fund payments have been required to date and \$US126,000 is available for application against the 1983 sinking fund requirements.
- (c) A revolving credit facility for \$Cdn100,000,000 was signed October 22, 1981. It is a three-year revolving loan converting to a four-year term loan with semi-annual repayments after October 22, 1984. Interest rates are on a floating basis and are available through a number of options including Eurodollars, Bankers' Acceptances and U.S. dollars. Currently, interest is charged at Canadian bank prime with this increasing to Canadian bank prime plus one-quarter of 1% in 1985 and prime plus three-eighths of 1% in 1987. There is an annual standby fee of one-quarter of 1% on unutilized amounts.

An additional two-year revolving credit facility for \$Cdn25,000,000 was signed October 4, 1982 against which there were no borrowings outstanding at December 31, 1982. Interest rates are at bank prime for Canadian dollar borrowings and LIBOR plus one-half of 1% for U.S. dollar borrowings. There is an annual standby fee of three-eighths of 1% on unutilized amounts.

Interest and related expenses on long-term debt were: 1982—\$Cdn16,607,000; 1981—\$Cdn7,831,000; 1980—\$Cdn8,040,000; 1979—\$Cdn8,105,000 and 1978—\$Cdn8,194,000.

Sinking fund and principal payments, based on December 31, 1982 outstanding borrowings and after allowing for prepayments, required over the next 5 years are as follows:

	Canadian funds	U.S. funds
	(in thousands)	
1983	\$ 495	\$3,204
1984	814	3,330
1985	8,314	3,330
1986	8,314	3,330
1987	8,314	3,330

10. SHARE CAPITAL, DIVIDENDS AND EARNINGS PER SHARE

- (a) HBMS is authorized to issue an unlimited number of common shares. At December 31, 1982, there were issued and fully paid 10,231,044 shares, and at December 31, 1981, 1980, 1979 and 1978, there were issued and fully paid 10,101,739 shares.

HBMS declared a dividend of 20¢ per share, payable December 31, 1982, to shareholders of record on December 15, 1982. The dividend was paid in shares of HBMS valued at the weighted average price of

board lot trades on the Toronto Stock Exchange for the trading days December 8 to December 15, 1982 inclusive. There were 129,305 shares issued at a stated price of \$Cdn15.15 per share for a total value of \$Cdn1,959,000. A cash payment of \$Cdn61,000 was made in lieu of fractional shares.

- (b) Under HBMS' 1981 Key Executive Share Purchase Plan, 200,000 shares are available for purchase by key executives of HBMS, its subsidiaries and its other affiliates. No purchase rights have been allocated under the plan.
- (c) Under HBMS' 1981 Share Option Plan, 250,000 shares are available for granting of options to key employees of HBMS, its subsidiaries and its other affiliates. Options, expiring in 1987, for 39,000 shares at \$Cdn18.50 per share have been granted under the plan. No options have been exercised.
- (d) HBMS has declared cash and stock dividends on its shares as follows:

	<u>Cash dividends</u>	<u>Stock dividends</u>
	(\$Cdn per share)	
1982	\$0.10	\$0.20
1981	1.05	—
1980	1.20	—
1979	0.80	—
1978	—	—

The value assigned to stock dividends, after a cash payment in lieu of fractional shares, was attributed to share capital of HBMS.

- (e) Earnings per share were calculated on the weighted average number of shares outstanding during the year, after restatement for the 1982 stock dividend (10,231,044 shares for 1982, 1981, 1980, 1979 and 1978).

11. INTEREST AND OTHER INCOME

	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
	(\$Cdn in thousands)				
Interest income	\$ 6,971	\$ 8,126	\$11,734	\$ 7,207	\$ 8,218
Share of earnings (loss) of					
Whitehorse Copper joint venture ..	(2,299)	6,657	10,788	5,439	1,270
Gain (loss) on forward metal sales ...	—	3,206	—	(8,468)	—
Miscellaneous	576	3,010	1,006	3,476	2,008
	<u>\$ 5,248</u>	<u>\$20,999</u>	<u>\$23,528</u>	<u>\$ 7,654</u>	<u>\$11,496</u>

12. INCOME TAXES, MINING TAXES AND ROYALTIES

	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
	(\$Cdn in thousands)				
Income taxes:					
Current—Canada	\$ 2,895	\$(5,006)	\$4,294	\$ 511	\$ 292
—Foreign	5	88	86	74	150
Deferred—Canada	(23,470)	1,747	1,160	6,170	(1,917)
	<u>(20,570)</u>	<u>(3,171)</u>	<u>5,540</u>	<u>6,755</u>	<u>(1,475)</u>
Canadian mining taxes and royalties:					
Current	—	83	1,373	165	264
Deferred	1,283	(208)	1,937	2,403	(107)
	<u>\$(19,287)</u>	<u>\$(3,296)</u>	<u>\$8,850</u>	<u>\$9,323</u>	<u>\$(1,318)</u>

Income taxes have been calculated using the following effective income tax rates. The reconciliation of the combined Canadian Federal and Provincial statutory income tax rates and the effective income tax rate is as follows:

	1982	1981	1980	1979	1978
Combined statutory income tax					
(recovery) rate	(52.2)%	(48.1)%	52.4%	48.0%	(50.0)%
Inventory allowance	(2.4)	(10.5)	(2.9)	(3.8)	(10.8)
Nontaxable income	0.5	(.2)	(2.1)	(.9)	(1.7)
Nondeductible mining taxes	1.1	(.6)	5.7	(2.3)	10.3
Historical deferred tax credit					
rates	17.1	26.1	—	—	—
Canadian resource allowance	—	—	(29.8)	(19.6)	—
Tax credits, rebates	—	—	(5.3)	—	—
Other	1.0	3.8	0.4	8.0	5.3
Effective income tax (recovery)					
rate	<u>(34.9)%</u>	<u>(29.5)%</u>	<u>18.4%</u>	<u>29.4%</u>	<u>(46.9)%</u>

HBMS has a tax loss available for application against taxable income of future years of approximately \$Cdn44,000,000 which expires in 1987. In addition, HBMS has investment tax credits available for application against future Canadian Federal income taxes payable, of approximately \$Cdn10,754,000 which expire in the years 1983 to 1987 as follows: 1983—\$Cdn2,355,000; 1984—\$Cdn1,892,000; 1985—\$Cdn1,310,000; 1986—\$Cdn3,770,000; 1987—\$Cdn1,427,000.

Deferred income taxes represent tax reductions applicable to the timing differences between amounts claimed in the year for income tax purposes and amounts charged to earnings. The sources of these differences and the tax effect of each were as follows:

	1982	1981	1980	1979	1978
			(\$Cdn in thousands)		
Depreciation and depletion	\$ (9,118)	\$2,125	\$ 1,624	\$2,611	\$(2,236)
Amortization of mine development ...	4,639	829	1,522	1,430	105
Exploration expenditures	(3,493)	(694)	—	2,010	—
Current year's loss	(16,889)	—	—	—	—
Assessment adjustment	1,391	—	—	—	—
Prior years' losses	—	—	(1,451)	—	—
Other	—	(513)	(535)	119	214
	<u>\$(23,470)</u>	<u>\$1,747</u>	<u>\$ 1,160</u>	<u>\$6,170</u>	<u>\$(1,917)</u>

13. EXTRAORDINARY ITEMS

- The power plant at Island Falls, Saskatchewan and certain ancillary assets were transferred to Saskatchewan Power Corporation on April 1, 1981. HBMS received an interim payment, net of related expenses, of \$Cdn38,561,000 in 1981 and a final payment, net of tax payments and related expenses, of \$Cdn18,895,000 in November 1982. These payments resulted in an extraordinary gain of \$Cdn55,508,000 after related costs and tax provision of \$Cdn4,994,000.
- During 1979, HBMS purchased a 9.8% holding in Rosario Resources Corporation for a cash consideration of \$Cdn24,448,000. In January 1980, HBMS made a tender offer for all of the outstanding shares of Rosario Resources Corporation at \$US65 per share. On February 1, 1980 HBMS sold its holding for \$US75 per share for a total cash consideration of \$Cdn51,816,000 (\$US44,820,000) and withdrew its tender offer. This resulted in a gain of \$Cdn19,500,000 after related costs and tax provision of \$Cdn6,500,000 and increased working capital by \$Cdn47,848,000.

- (c) HBMS' portion of income tax reductions resulting from the application of prior years' losses were as follows:

	1980	1979
	(\$Cdn in thousands)	
HBMS	\$1,451	\$ —
Francona	472	—
Inspiration Copper	—	1,564
Tanco	244	300
Whitehorse Copper Mines Ltd.....	—	1,357
	<u>\$2,167</u>	<u>\$3,221</u>

14. SUBSEQUENT EVENT

In February 1983, Inspiration Coal announced that it was temporarily idling its metallurgical coal operations at its Harman Mining division. Total assets at Harman Mining division at December 31, 1982, as included in the Inspiration Resources Group financial statements, were approximately \$US58,000,000. Total revenues and net loss were \$US27,855,000 and \$US4,837,000, respectively, for the year ended December 31, 1982. This action was taken as a cost containment measure.

Inspiration Coal's other coal mining operations are currently operating at less than 50% of capacity because of the depressed market for coal and overall are incurring operating losses before interest expense. Although immediate market improvement is not anticipated, Inspiration Coal will maintain its production facilities in a normal state of repair until coal markets improve, with financial assistance provided by Inspiration Resources as necessary.

Concurrent with the above action, Inspiration Coal reduced staff to reduce costs and significantly realigned its management structure to improve management efficacy.

15. RETIREMENT PLANS

HBMS and its subsidiaries maintain noncontributory retirement plans which cover substantially all salaried and hourly paid employees.

During 1982 and 1981, upon the recommendation of HBMS' actuaries, the actuarial bases of the retirement plans were reviewed and modified to reflect current economic factors. The effect was to increase the carrying value of pension assets by approximately \$Cdn7,200,000 in 1982 and to reduce the present value of benefit obligations by approximately \$Cdn13,000,000 in 1981. The resultant surpluses of plan assets over liabilities were applied against 1982 pension costs and were used to upgrade certain benefits calculated to cost \$Cdn9,700,000 in 1981.

Total cost of the plans approximated \$Cdn2,250,000 in 1982; \$Cdn3,000,000 in 1981; \$Cdn3,000,000 in 1980; \$Cdn3,428,000 in 1979; \$Cdn4,003,000 in 1978 including past-service costs of nil in 1982; \$Cdn268,000 in 1981; \$Cdn1,783,000 in 1980; \$Cdn1,769,000 in 1979; \$Cdn1,737,000 in 1978.

16. RELATED PARTY INFORMATION (refer to Note 2)

HBMS provides administrative and marketing services in Toronto and New York to certain Inspiration Resources group companies. HBMS also provides administrative services in Toronto to certain Mincan group companies, some of which are joint venture partners with HBMS in certain exploration projects. The applicable costs are shared on a time or activity basis amongst the parties involved without any profit element. Total transactions with the Inspiration Resources Group for these types of services amounted to \$Cdn5,259,000 during 1982. Accounts receivable included \$Cdn612,000 at December 31, 1982 due from the Inspiration Resources Group which arose as a result of these services. Included in accounts payable is \$Cdn2,510,000 held on behalf of the Inspiration Resources Group and used for margin deposits to commodity brokers.

HBMS and Mincan equally own a company, Ambay Services Limited (Ambay), that handles the surplus funds, cash requirements and money market activities of certain related companies, at relevant market rates. During 1982, the amount which HBMS had on deposit with Ambay fluctuated with the maximum amount being \$Cdn17,337,000; 1981—\$Cdn92,076,000; 1980—\$Cdn100,417,000; 1979—\$Cdn86,884,000 and

1978—\$Cdn132,366,000; and the amount at December 31, 1982 was \$Cdn5,001,000; December 31, 1981—\$Cdn6,788,000; December 31, 1980— \$Cdn79,070,000; December 31, 1979—\$Cdn24,901,000; December 31, 1978— \$Cdn70,400,000. HBMS earned interest of \$Cdn958,000 on these deposits in 1982; \$Cdn7,312,000 in 1981; \$Cdn11,002,000 in 1980; \$Cdn6,962,000 in 1979; \$Cdn8,011,000 in 1978.

Ambay advances to the Mincan group fluctuated with the maximum amount in 1982 being \$Cdn12,173,000; 1981—\$Cdn23,412,000; 1980—\$Cdn24,032,000; 1979—\$Cdn867,000; 1978—\$Cdn3,362,000; and the amount at December 31, 1982 was \$Cdn700,000; December 31, 1981—\$Cdn5,000; December 31, 1980—\$Cdn21,277,000; December 31, 1979—\$Cdn1,165,000; December 31, 1978—\$Cdn1,022,000.

HBMS has a two-thirds interest in, and is manager of, a joint venture to operate the Whitehorse Copper mine; Mincan has the remaining one-third interest. HBMS buys all of the concentrate produced by the joint venture at market prices for the metal contained and charges the joint venture for refining and marketing the metal. HBMS purchased 19,390 tons of concentrate for \$Cdn16,468,000 net of refining and marketing charges in 1982; 26,230 tons for \$Cdn32,172,000 in 1981; 20,535 tons for \$Cdn31,973,000 in 1980; 21,862 tons for \$Cdn23,491,000 in 1979; 28,258 tons for \$Cdn18,167,000 in 1978; and received \$Cdn1,200,000 as a depreciation charge in each of the years 1980 to 1982; \$Cdn1,191,000 in 1979; \$Cdn1,209,000 in 1978. HBMS' share of earnings (loss) of the joint venture was \$Cdn(2,299,000) in 1982; \$Cdn6,657,000 in 1981; \$Cdn10,788,000 in 1980; \$Cdn5,439,000 in 1979; \$Cdn1,270,000 in 1978. The Whitehorse Copper mine was permanently shutdown effective December 31, 1982. The purchase of concentrate by HBMS will continue during 1983 until all concentrate inventory is depleted.

17. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As disclosed in Note 1, the financial statements are prepared in accordance with accounting principles generally accepted in Canada. The main differences between Canadian and United States generally accepted accounting principles which affect the earnings of HBMS are as follows:

(a) Foreign currency transactions:

Accounting principles in the U.S. require the recognition of unrealized exchange gains and losses on conversion of foreign currency long-term debt because of the use in the U.S. of end-of-period rates of exchange.

(b) Capitalization of interest costs:

Accounting principles in the U.S., effective January 1980, require that interest costs during construction of certain assets be capitalized as part of the historical cost of such assets. Capitalized interest has been accounted for prospectively for assets in existence at January 1, 1980.

A reconciliation of net earnings (loss) as reported with net earnings (loss) determined in accordance with generally accepted accounting principles in the United States is set forth below.

	1982	1981	1980	1979	1978
			(\$Cdn in thousands)		
Net earnings (loss) as reported	<u>\$ (8,689)</u>	<u>\$ (10,753)</u>	<u>\$63,108</u>	<u>\$31,616</u>	<u>\$ 5,200</u>
Foreign currency	<u>(4,353)</u>	<u>4,405</u>	<u>(410)</u>	<u>989</u>	<u>(4,821)</u>
Capitalized interest (net of related depreciation)	<u>8,808</u>	<u>3,531</u>	<u>1,176</u>	<u>—</u>	<u>—</u>
	<u>4,455</u>	<u>7,936</u>	<u>766</u>	<u>989</u>	<u>(4,821)</u>
Provision (benefit) for income taxes	<u>2,280</u>	<u>1,190</u>	<u>155</u>	<u>215</u>	<u>(1,145)</u>
	<u>2,175</u>	<u>6,746</u>	<u>611</u>	<u>774</u>	<u>(3,676)</u>
Net earnings (loss) in accordance with generally accepted accounting principles in the U.S. . .	<u>\$ (6,514)</u>	<u>\$ (4,007)</u>	<u>\$63,719</u>	<u>\$32,390</u>	<u>\$ 1,524</u>
Earnings (loss) per share in accordance with generally accepted accounting principles in the U.S. . .	<u>\$ (0.64)</u>	<u>\$ (0.39)</u>	<u>\$ 6.23</u>	<u>\$ 3.17</u>	<u>\$ 0.15</u>

Supplementary Information
HUDSON BAY MINING CONSOLIDATED
 (Note 1 below)
 (\$Cdn in thousands)

METALS					METALS					COAL					AGRICULTURAL CHEMICALS					PETROLEUM							
1982	1981	1980	1979	1978		1982	1981	1980	1979	1978	1982	1981	1980	1979	1978	1982	1981	1980	1979	1978	1982	1981	1980	1979	1978	1982	
RESULTS OF OPERATIONS FOR THE YEAR:																											
REVENUE																											
Canadian operations:																											
\$ 69,891	\$109,249	\$116,846	\$126,315	\$ 76,149		\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,890	\$ 2,157	\$ 2,488	\$ 1,365	\$ 1,343	\$ —	
114,052	146,883	163,589	118,775	50,751		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
66,049	35,556	28,223	26,430	58,792		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Export— United States																											
Export— Europe																											
Foreign operations:																											
—	—	—	—	—		141,401	157,701	172,620	121,719	98,568	70,552	48,490	—	—	—	273,343	319,134	265,714	225,965	174,025	15,228	15,380	7,162	3,156	3,263	—	
—	—	—	—	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	52,403	49,784	53,949	36,737	32,168	—	
249,992	291,688	308,658	271,520	185,692		141,401	157,701	172,620	121,719	98,568	70,552	48,490	—	—	—	273,343	319,134	265,714	225,965	174,025	70,521	67,321	63,599	41,258	36,774	—	
Net sales																											
Interest income:																											
—	—	366	—	—		187	133	—	465	317	437	964	—	—	—	3,880	4,811	3,803	2,623	1,838	1,223	2,455	1,892	1,995	1,087	233	
6,971	8,126	11,368	7,207	8,218		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	30	
(1,723)	12,873	11,794	447	3,278		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	30	—	—	29	
United States (Note 3 below)																											
Canada																											
Southeast Asia																											
Other income																											
\$255,240	\$312,687	\$332,186	\$279,174	\$197,188		\$147,675	\$173,388	\$178,004	\$124,788	\$101,251	\$ 72,047	\$ 50,001	\$ —	\$ —	\$ —	\$281,289	\$327,414	\$272,637	\$231,564	\$177,915	\$ 75,409	\$ 77,630	\$ 83,236	\$ 45,946	\$ 39,231	\$ (53)	
TOTAL REVENUE																											
OPERATING PROFIT (LOSS)																											
United States																											
\$ —	\$ —	\$ 366	\$ 798	\$ —		\$ (14,061)	\$ (12,669)	\$ (10,732)	\$ 9,466	\$ (6,501)	\$ (5,397)	\$ 1,767	(43)	\$ —	\$ —	\$ (7,193)	\$ 15,931	\$ 23,862	\$ 10,321	\$ 2,701	\$ (1,432)	\$ 1,434	\$ 8,722	\$ 3,100	\$ 1,096	\$ (53)	
(33,261)	3,129	47,083	19,460	13,110		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,040	1,639	1,803	938	1,129	—	
—	—	—	—	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	33,002	37,678	39,920	23,289	20,930	—	
(33,261)	3,129	47,449	20,258	13,110		\$ (14,061)	\$ (12,669)	\$ (10,732)	\$ 9,466	\$ (6,501)	\$ (5,397)	\$ 1,767	(43)	\$ —	\$ —	\$ (7,193)	\$ 15,931	\$ 23,862	\$ 10,321	\$ 2,701	\$ 33,610	\$ 40,751	\$ 50,445	\$ 27,327	\$ 23,155	\$ (53)	
(7,191)	(5,760)	(5,494)	(4,964)	(5,252)		General corporate expenses																					
(17,131)	(8,261)	(8,515)	(8,362)	(8,208)		Interest expense																					
19,287	3,296	(8,850)	9,323	(1,318)		Income taxes and royalties																					
—	—	—	—	—		Pro forma minority interests																					
EARNINGS (LOSS) FROM OPERATIONS																											
\$ (38,296)	\$ (7,596)	\$ 24,590	\$ 16,255	\$ (1,668)		FINANCIAL POSITION																					
AT DECEMBER 31:																											
\$103,547	\$116,507	\$173,241	\$109,304	\$143,370		\$ 58,518	\$ 66,130	\$ 65,937	\$ 61,702	\$ 45,416	\$ 17,666	\$ 17,507	\$ 52	\$ —	\$ —	\$121,955	\$122,131	\$109,733	\$ 85,457	\$ 76,902	\$ 15,991	\$ 31,096	\$ 30,095	\$ 21,113	\$ 21,076	\$ 1,203	
71,926	72,417	71,722	54,464	44,390		31,175	38,632	41,152	45,384	16,517	4,878	7,747	94	—	—	63,837	55,672	46,382	32,454	30,706	14,037	13,153	13,470	6,234	7,248	63,672	
Current assets																											
Current liabilities																											
31,621	44,090	101,519	54,840	98,980		27,343	27,498	24,785	16,318	28,899	12,788	9,760	(42)	—	—	58,118	66,459	63,351	53,003	46,196	1,954	17,943	16,625	14,879	13,828	(62,469)	
418,155	445,585	377,794	369,423	296,259		165,161	172,366	147,529	116,609	100,929	129,115	99,836	—	—	—	90,731	87,620	50,050	52,692	57,819	187,096	113,726	71,168	47,080	43,585	663	
Working capital (deficiency)																											
Other assets																											
449,776	489,675	479,313	424,263	395,239		192,504	199,864	172,314	132,927	129,828	141,903	109,596	(42)	—	—	148,849	154,079	113,401	105,695	104,015	189,050	131,669	87,793	61,959	57,413	(61,806)	
90,229	64,231	67,636	71,031	72,795		82,960	89,238	74,630	16,550	23,125	62,086	260	—	—	—	35,482	29,789	30,858	32,130	33,382	64,494	25,750	—	—	—	62,615	
54,012	110,148	75,021	67,562	60,309		848	978	1,182	1,401	25,513	10,155	9,067	—	—	—	5,733	5,578	10,832	37,884	38,412	6,131	24,875	24,538	10,055	9,111	—	
Long-term debt																											
Other liabilities																											
\$305,535	\$315,296	\$336,656	\$285,670	\$262,135		\$108,696	\$109,648	\$ 96,502	\$114,976	\$ 81,190	\$ 69,662	\$100,269	\$ (42)	\$ —	\$ —	\$107,634	\$118,712	\$ 71,711	\$ 35,681	\$ 32,221	\$118,425	\$ 81,044	\$ 63,255	\$ 51,904	\$ 48,302	\$ (124,421)	
Net equity																											
IDENTIFIABLE ASSETS:																											
\$162,628	\$ 99,476	\$ 98,947	\$135,412	\$ 83,083		\$223,679	\$238,496	\$213,466	\$178,311	\$146,345	\$146,781	\$117,343	\$ 52	\$ —	\$ —	\$212,686	\$209,751	\$159,783	\$138,149	\$134,721	\$158,335	\$117,695	\$ 72,322	\$ 41,641	\$ 32,490	\$ 1,866	
359,074	462,616	452,088	343,315	356,546		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4,360	2,864	2,998	2,625	1,843	—	
—	—	—	—	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	40,392	24,263	25,943	23,927	30,328	—	
—	—	—	—	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
\$521,702	\$562,092	\$551,035	\$478,727	\$439,629		\$223,679	\$238,496	\$213,466	\$178,311	\$146,345	\$146,781	\$117,343	\$ 52	\$ —	\$ —	\$212,686	\$209,751	\$159,783	\$138,149	\$134,721	\$203,087	\$144,822	\$101,263	\$ 68,193	\$ 64,661	\$ 1,866	
Total identifiable assets																											
Depreciation, depletion and amortization																											
\$ 24,192	\$ 27,555	\$ 23,732	\$ 20,819	\$ 16,790		\$ 17,573	\$ 15,047	\$ 13,590	\$ 11,080	\$ 10,757	\$ 4,197	\$ 3,395	\$ —	\$ —	\$ —	\$ 9,223	\$ 7,007	\$ 5,067	\$ 5,253	\$ 4,589	\$ 16,844	\$ 15,043	\$ 18,626	\$ 7,742	\$ 6,626	\$ —	
\$ 43,285	\$ 80,310	\$ 36,648	\$ 37,545	\$ 46,811		\$ 9,512	\$ 33,624	\$ 43,761	\$ 22,159	\$ 7,102	\$ 4,803	\$ 1,564	\$ —	\$ —	\$ —	\$ 13,138	\$ 6,403	\$ 6,245	\$ 2,972	\$ 9,525	\$ 18,045	\$ 56,453	\$ 31,261	\$ 11,236	\$ 6,525	\$ —	
Capital expenditures																											

1. Hudson Bay Mining Consolidated

HBMS' only business segment is metals. The operations include exploration, mining, milling, smelting, refining and sale of copper, zinc, gold, silver and cadmium and the production and sale of zinc oxide and zinc diecastings.

2. Inspiration Resources Group

A significant portion of the operations of HBMS are conducted through associated companies of the Inspiration Resources Group, jointly owned with Minorco.

The coal selected information includes the results from dates of acquisition during 1981 and 1982 of the companies involved. The agricultural chemicals selected information includes the results of Terra on a pro forma basis for the first six months of 1981 and the full years of 1980, 1979 and 1978. The petroleum selected information includes the results of Trend on a pro forma basis for the first five months of 1982 and the full years of 1981, 1980, 1979 and 1978.

The Inspiration Resources Group's business segments are as follows:

Business segment	Operations
Metals	Exploration, mining, milling, smelting, refining and sale of copper, gold and silver.
Coal	Mining and sale of coal.
Agricultural chemicals	Production and sale of ammonia and derivatives for inorganic fertilizers, animal feed and seed; purchase of potash, phosphate and agricultural chemicals for production of mixed fertilizers and resale.
Petroleum	Exploration, development, production and sale of natural gas, oil and condensates.
Corporate	Corporate operations relate primarily to the management and administration of cash, short-term securities and investments.

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es the results of Terra on a pro forma basis for the first
petroleum selected information includes the results of
the full years of 1981, 1980, 1979 and 1978.

The Inspiration Resources Group's business segments are as follows:

Business segment	Operations
Metals	Exploration, mining, milling, smelting, refining and sale of copper, gold and silver.
Coal	Mining and sale of coal.
Agricultural chemicals	Production and sale of ammonia and derivatives for inorganic fertilizers, animal feed and seed; purchase of potash, phosphate and agricultural chemicals for production of mixed fertilizers and resale.
Petroleum	Exploration, development, production and sale of natural gas, oil and condensates.
Corporate	Corporate operations relate primarily to the management and administration of cash, short-term securities and investments.

3. Interest Income

Inspiration Resources Group interest income is presented after elimination of inter-company interest income of \$US482,000 in 1982 for agricultural chemicals, \$US34,000 in 1982 for metals and \$US8,111,000 in 1982, \$US5,698,000 in 1981 for corporate.

SELECTED FINANCIAL DATA

	1982	1981	1980	1979	1978
	(\$Cdn in thousands except per share data)				
FINANCIAL POSITION:					
Working capital.....	\$ 31,621	\$ 44,090	\$101,519	\$ 54,840	\$ 98,980
Total assets.....	521,702	562,092	551,035	478,727	439,629
Capital employed.....	449,776	489,675	479,313	424,263	395,239
Long-term debt.....	90,229	64,231	67,636	71,031	72,795
Shareholders' investment.....	305,535	315,296	336,656	285,670	262,135
EARNINGS:					
Revenues:					
Net sales.....	\$249,992	\$291,688	\$308,658	\$271,520	\$185,692
Other income.....	5,248	20,999	23,528	7,654	11,496
Cost and expenses.....	312,823	323,579	298,746	253,596	200,174
Taxes and royalties.....	(19,287)	(3,296)	8,850	9,323	(1,318)
Equity earnings (loss).....	(25,901)	(3,157)	16,851	12,140	6,868
Earnings (loss) before extraordinary items.....	(64,197)	(10,753)	41,441	28,395	5,200
Extraordinary items.....	55,508	—	21,667	3,221	—
Net earnings (loss).....	(8,689)	(10,753)	63,108	31,616	5,200
Earnings (loss) per share:*					
Before extraordinary items.....	(6.27)	(1.05)	4.05	2.78	0.51
After extraordinary items.....	(0.85)	(1.05)	6.17	3.09	0.51
OTHER:					
Cash dividends paid.....	\$ 1,072	\$ 10,607	\$ 12,122	\$ 8,081	\$ —
Cash dividends declared per share.....	0.10	1.05	1.20	0.80	—
Stock dividends declared per share.....	0.20	—	—	—	—
Capital expenditures.....	43,285	80,310	36,648	37,545	46,811
Investment expenditures.....	1,002	17,596	5,050	43,750	27,503

*Earnings (loss) per share information has been restated to reflect the 1982 stock dividend.

SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

	Quarters ended			
	March 31	June 30	Sept. 30	Dec. 31
(\$Cdn in thousands except for per share data)				
1982				
Net sales	\$ 65,236	\$ 60,579	\$ 51,203	\$ 72,974
Loss before taxes, royalties and other items.....	(19,278)	(14,779)	(16,335)	(7,191)
Loss before extraordinary item	(24,135)	(13,994)	(20,860)	(5,208)
Net earnings (loss).....	(24,135)	(13,994)	(20,860)	50,300
Earnings (loss) per share:				
Before extraordinary item	(2.36)	(1.37)	(2.04)	(0.50)
After extraordinary item	(2.36)	(1.37)	(2.04)	4.92
Cash dividends paid per share	0.10	—	—	—
1981				
Net sales	\$ 84,084	\$ 74,467	\$ 69,712	\$ 63,425
Earnings (loss) before taxes, royalties and other items	1,803	5,212	(6,827)	(11,080)
Net earnings (loss).....	852	9,065	(4,885)	(15,785)
Earnings (loss) per share.....	0.08	0.89	(0.48)	(1.54)
Cash dividends paid per share	0.30	0.30	0.30	0.15
1980				
Net sales	\$ 87,516	\$ 72,109	\$ 66,080	\$ 82,953
Earnings before taxes, royalties and other items	19,855	6,964	2,579	4,042
Earnings before extraordinary items.....	20,571	10,345	5,948	4,577
Net earnings	41,564	10,543	5,443	5,558
Earnings per share:				
Before extraordinary items.....	2.01	1.01	0.58	0.45
After extraordinary items.....	4.06	1.03	0.53	0.55
Cash dividends paid per share	0.30	0.30	0.30	0.30

Quarterly financial information is restated to reflect the deconsolidation of Terra and Francana as explained in Note 1 and earnings (loss) per share information has been restated to reflect the 1982 stock dividend.

COMBINED FINANCIAL STATEMENTS OF INSPIRATION RESOURCES GROUP

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On April 26, 1983, Plateau Holdings Inc. changed its name to Inspiration Resources Corporation. Accordingly, all references thereto in these financial statements have been changed. Plateau Holdings is now referred to as Inspiration Resources and Plateau Group as Inspiration Resources Group.

Although the Trend companies do not become subsidiaries of Inspiration Resources until the Reorganization, they are included in the Inspiration Resources Group as of May 1982 following the Francana Oil & Gas Ltd. Arrangement referred to in Note 3.

INSPIRATION RESOURCES GROUP
MANAGEMENT'S DISCUSSION OF THE
1980-1982 COMBINED FINANCIAL STATEMENTS

Liquidity and Capital Resources

Working capital of the Inspiration Resources Group was \$US37.7 million at December 31, 1982, down considerably from December 31, 1981. The major component of the decrease was the movement to current from long-term of \$US60 million of the \$US122.7 million notes payable to the former shareholders of Sovereign Coal. The notes were repaid on January 17, 1982 with Inspiration Resources' two principal shareholders advancing \$US60 million and the balance being funded under Inspiration Resources' long-term credit facility. The shareholders' advances will be converted into equity on or before December 30, 1983 unless the proposed reorganization of HBMS and Inspiration Resources is completed by that date.

Long-term debt increased to \$US307.6 million at December 31, 1982 due to increases at Inspiration Coal of \$US61.8 million, increases at Terra of \$US5.7 million, new long-term debt of \$US64.5 million at Trend and decreases of \$US6.3 million at Inspiration Copper despite the movement to current of a portion of the Sovereign notes payable. The Inspiration Resources Group had unused commitments for long-term financing of \$US93.6 million (mainly those of Inspiration Copper) at December 31, 1982 plus additional short-term lines of credit of \$US54.2 million (mainly those of Terra).

Capital expenditure cutbacks, particularly in the metals and petroleum segments, were substantial during 1982. The primary emphasis at all operations was and continues to be management of cash flows through cost reductions and deferral of capital expenditures. This emphasis, with the exception of coal, has not affected current production levels.

The Inspiration Resources Group has no established dividend policy and has not paid dividends during the period except for preferred share dividends paid by subsidiary companies.

Taxes

The Inspiration Resources Group, excluding Trend, incurred substantial operating losses in 1982, 1981 and 1980. As a result, it has available \$US153.4 million of losses for deduction from future years' taxable income and \$US11.6 million of investment tax credits which cannot be utilized while in a loss carry-forward position. Inspiration Resources Group's financial results reflect no benefit from future tax reductions. When they are utilized, these benefits will be reported as an extraordinary item. Trend is a separate reporting unit for tax purposes and paid cash taxes in all geographic areas, except the U.S., in 1982.

Impact of Inflation and Changing Prices

Inspiration Resources Group financial statements are reported reflecting historical costs and hence dollars of varying purchasing power. They do report, however, the recent cost of acquisitions, particularly in the coal segment and the agricultural chemicals segments, but generally, they do not isolate the effects of inflation on Inspiration Resources' segments. If operating results had been recalculated on a current cost basis, the results would most likely have been unfavourable compared to historic results. The difference between the two bases would have narrowed for 1982 as the rate of inflation lessened in the U.S.

1982 Compared with 1981

The following discussion includes Trend on a pro forma basis for 1980, 1981 and the first five months of 1982 and Terra on a pro forma basis for 1980 and the first six months of 1981.

The 1982 loss from operations of \$US43.2 million compared unfavourably to the 1981 loss from operations of \$US14.2 million. All operating units were adversely affected by generally poor economic conditions which have held down the demand for all products and created downward pressure on prices. The 1981 results were positively affected by the gain of \$US10.4 million from the sale by the metals segment of the Ferron Canyon coal property.

The metals segment recorded losses in 1982 and 1981. The 1981 loss was, however, lower due to the Ferron Canyon sale. The metals segment continued to be plagued by weak metal prices during both periods, with historical lows being attained during 1982. Significant cost cutting measures in 1982, which substantially reduced the unit cost of production, included cutbacks in the workforce and capital expenditures in addition to a planned

smelter shutdown from July 27, 1982 to October 4, 1982, and reduced levels of exploration activity in the U.S. A furnace breakout, which occurred during the smelter start-up in early October 1982, delayed the smelter start-up until January 1983.

The coal segment losses in 1982 reflected the progressive softening of coal prices in the spot market and reduced sales, mainly due to a lack of sales contracts. In contrast, losses for 1981 were primarily due to high borrowing costs and depreciation charges based on the purchase of the Sovereign Coal operations combined with the effect of a 71-day coal strike which ended on June 8, 1981. Temporary closures of the group's coal mines occurred on a rotating basis throughout 1982 to allow for inventory stockpiles to be drawn down. A restructuring of senior management in the coal segment and the idling of operations at Harman Mining was announced in February 1983. The Harman properties, which represent approximately 26% of the segment's capacity, will remain idle until such time as coal markets improve. The coal segment will probably not be in a position to service its debt in the immediate future without assistance from Inspiration Resources.

The agricultural chemicals segment experienced significantly lower sales volumes in 1982 compared to 1981, which resulted in operating losses in 1982 compared to 1981 operating profits. Low commodity prices and high interest rates during the spring coupled with the uncertainty about fall fertilizer programs were the major reasons for the lower volumes and consequent lower profitability.

The petroleum segment was also affected by the poor economic conditions worldwide and experienced an 18% decline in operating profit in 1982 compared with 1981. Operating cost increases in both the U.S. and in Indonesia were not matched by price changes during 1982. In fact, prices for all products in the petroleum segment have either remained constant or have decreased since 1981. The other major factor which produced a lower level of profitability was the interest expense attributable to the new long-term debt incurred as a result of the Adobe share transfer, which was part of the petroleum segment restructuring in May 1982.

1981 Compared with 1980

The metals segment was the major loss contributor for both years as a four-month strike at Inspiration Copper affected 1980 results and 1981 suffered from poor copper sales due to weak demand and continuing low prices. Inspiration Copper's 1981 loss was exacerbated by low silver and gold selling prices and high interest charges.

The coal segment, through Inspiration Coal, began operations in 1981 with the purchase of Bailey Mining, Sovereign Coal Group and Harman Mining. The coal segment lost \$US3.6 million after interest expense in 1981 as high borrowing costs and depreciation charges based on the stepped-up asset values more than offset satisfactory operating profits.

The agricultural chemicals segment recorded lower operating profits in 1981 compared to 1980 as fertilizer price increases did not keep up with cost increases in 1981. Fertilizer sales were down from 1980; however, sales of agricultural chemicals increased by 37% in 1981.

Petroleum net sales increased 6% as higher revenues from the sale of crude oil and natural gas in the U.S. more than offset lower revenues from Indonesian crude oil. The price of crude oil averaged \$US35 per barrel in 1981 compared to \$US32 per barrel in 1980. The installation of larger pumps and increased transportation and fuel costs increased Indonesian costs by 12% in 1981 and contributed to the lower operating profit in 1981 compared to 1980.

AUDITORS' REPORT

To the Directors of
Hudson Bay Mining and Smelting Co., Limited
Minerals and Resources Corporation Limited:

We have examined the combined statement of financial position of Inspiration Resources Group (formerly the Plateau Group) as at December 31, 1982 and 1981 and the related combined statements of earnings (loss) and retained earnings (deficit) and changes in financial position for the period from inception June 2, 1978 to December 31, 1978 and for each of the four years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these combined financial statements present fairly the financial position of the Inspiration Resources Group (formerly the Plateau Group) at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for the period from inception June 2, 1978 to December 31, 1978 and for each of the four years in the period ended December 31, 1982, in accordance with accounting principles generally accepted in the United States consistently applied.

Toronto, Ontario
March 21, 1983
(except for Note 2 for which
the date is May 14, 1983)

Price Waterhouse
Chartered Accountants

INSPIRATION RESOURCES GROUP
(formerly Plateau Group)

COMBINED STATEMENT OF FINANCIAL POSITION

As at December 31, 1982 and 1981

	1982	1981
	(\$US in thousands)	
CURRENT ASSETS:		
Cash and short-term deposits	\$ 15,943	\$ 14,954
Marketable securities	765	4,337
Accounts receivable	88,056	95,843
Inventories (Note 4)	103,870	103,729
Income taxes recoverable	6,699	—
Total current assets	<u>215,333</u>	<u>218,863</u>
Deduct:		
CURRENT LIABILITIES:		
Accounts payable (Note 5)	71,837	61,421
Accrued liabilities	32,781	31,832
Income taxes payable	6,004	4,769
Current portion of long-term debt	66,977	6,644
Total current liabilities	<u>177,599</u>	<u>104,666</u>
WORKING CAPITAL	37,734	114,197
Add:		
Investments (Note 6)	79,713	14,376
Property, plant and equipment (Note 7)	471,404	330,449
Other assets	21,649	14,997
CAPITAL EMPLOYED	<u>610,500</u>	<u>474,019</u>
Deduct:		
Commitments and contingencies (Note 8)		
Long-term debt (Note 9)	307,637	238,796
Compensation benefits and other (Note 10)	10,153	9,065
Deferred taxes (Note 11)	6,275	—
Minority interest (Note 12)	6,439	6,558
	<u>330,504</u>	<u>254,419</u>
NET EQUITY	<u>\$279,996</u>	<u>\$219,600</u>
NET EQUITY REPRESENTED BY:		
Shareholders' contributions (Note 13)	\$415,800	\$268,646
Valuation allowance (Note 6)	(38,917)	—
Deficit	<u>(96,887)</u>	<u>(49,046)</u>
TOTAL INSPIRATION RESOURCES GROUP NET EQUITY	<u>\$279,996</u>	<u>\$219,600</u>

See accompanying notes to the combined financial statements.

INSPIRATION RESOURCES GROUP
(formerly Plateau Group)

COMBINED STATEMENT OF EARNINGS (LOSS) AND RETAINED EARNINGS (DEFICIT)

For the years ended December 31, 1982, 1981, 1980, 1979 and for the period from inception,
June 2, 1978 to December 31, 1978

	1982	1981	1980	1979	1978
	(\$US in thousands)				
REVENUES:					
Net sales	\$527,415	\$312,235	\$172,620	\$121,719	\$ 50,692
Interest and other income (Note 14) ...	19,161	11,423	5,384	3,074	1,076
Gain on sale of coal property	—	10,402	—	—	—
	<u>546,576</u>	<u>334,060</u>	<u>178,004</u>	<u>124,793</u>	<u>51,768</u>
COSTS AND EXPENSES:					
Cost of sales	491,909	302,091	161,563	95,336	47,429
Depreciation, depletion and amortization	41,571	22,888	13,590	11,080	5,477
Exploration expenses	2,810	7,942	10,775	6,670	1,755
General administrative expenses	19,909	10,880	2,875	2,294	1,092
Interest	41,941	21,671	7,447	2,443	925
	<u>598,140</u>	<u>365,472</u>	<u>196,250</u>	<u>117,823</u>	<u>56,678</u>
Earnings (loss) before the undernoted items.	(51,564)	(31,412)	(18,246)	6,970	(4,910)
Provision (benefit) for income taxes and royalties (Note 11)	(4,157)	820	563	3,477	59
EARNINGS (LOSS) FROM OPERATIONS	(47,407)	(32,232)	(18,809)	3,493	(4,969)
Extraordinary item:					
Application of tax losses carried forward	—	—	—	3,070	—
Net earnings (loss) before minority interests.	(47,407)	(32,232)	(18,809)	6,563	(4,969)
Minority interests' share of net loss.	—	—	—	—	1,699
Dividends paid to minority interests	434	247	68	983	—
NET EARNINGS (LOSS) FOR THE PERIOD	(47,841)	(32,479)	(18,877)	5,580	(3,270)
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF THE PERIOD	(49,046)	(16,567)	2,310	(3,270)	—
RETAINED EARNINGS (DEFICIT) AT END OF THE YEAR	<u>\$ (96,887)</u>	<u>\$ (49,046)</u>	<u>\$ (16,567)</u>	<u>\$ 2,310</u>	<u>\$ (3,270)</u>

See accompanying notes to the combined financial statements.

INSPIRATION RESOURCES GROUP
(formerly Plateau Group)

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1982, 1981, 1980, 1979 and for the period from inception,
June 2, 1978 to December 31, 1978

	1982	1981	1980	1979	1978
	(\$US in thousands)				
WORKING CAPITAL PROVIDED:					
Operations:					
Earnings (Loss) from operations . . .	\$ (47,407)	\$ (32,232)	\$ (18,809)	\$ 3,493	\$ (4,969)
Depreciation, depletion and amortization	41,571	22,888	13,590	11,080	5,477
Compensation benefits and other . . .	1,088	1,107	—	—	—
Deferred taxes	(7,065)	—	—	—	—
	<u>(11,813)</u>	<u>(8,237)</u>	<u>(5,219)</u>	<u>14,573</u>	<u>508</u>
Proceeds from long-term debt	73,207	144,646	63,000	—	—
Capital contributed from combination of Trend	147,152	—	—	—	—
Capital contributed by shareholders . . .	2	155,840	—	28,046	84,541
Investments	987	2,699	(614)	131	(97)
Application of tax losses carried forward	—	—	—	3,070	—
Decrease in other assets	930	—	—	—	—
Other	678	(205)	797	—	2,112
	<u>211,143</u>	<u>294,743</u>	<u>57,964</u>	<u>45,820</u>	<u>87,064</u>
WORKING CAPITAL APPLIED:					
Combination of Trend, net of working capital deficiency of \$297,000 (Note 3).	147,449	—	—	—	—
Acquisition of Wheelwright assets (Note 3).	26,000	—	—	—	—
Acquisition of subsidiaries (Note 3) . . .	—	138,803	—	28,046	84,531
Payments to minority interests	1,085	247	68	983	—
Property, plant and equipment	44,212	38,271	43,761	22,159	5,314
Reduction of long-term debt	68,860	15,305	4,920	6,575	2,643
Increase in other assets	—	12,442	932	798	—
	<u>287,606</u>	<u>205,068</u>	<u>49,681</u>	<u>58,561</u>	<u>92,488</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(76,463)	89,675	8,283	(12,741)	(5,424)
WORKING CAPITAL AT BEGINNING OF PERIOD	114,197	24,522	16,239	28,980	34,404
WORKING CAPITAL AT END OF YEAR	<u>\$ 37,734</u>	<u>\$114,197</u>	<u>\$ 24,522</u>	<u>\$ 16,239</u>	<u>\$ 28,980</u>
CHANGES IN WORKING CAPITAL:					
Increase (decrease) in current assets:					
Cash and short-term deposits	\$ 989	\$ 13,413	\$ 377	\$ (7,053)	\$ (35)
Marketable securities	(3,572)	4,337	—	—	(3,503)
Accounts receivable	(7,787)	62,399	14,895	5,431	(217)
Inventories	141	72,599	(11,001)	17,907	(2,086)
Income taxes recoverable	6,699	—	—	—	—
	<u>(3,530)</u>	<u>152,748</u>	<u>4,271</u>	<u>16,285</u>	<u>(5,841)</u>
(Increase) decrease in current liabilities:					
Accounts payable	(10,416)	(43,927)	11,091	(24,562)	(753)
Accrued liabilities	(949)	(14,637)	(6,522)	(4,368)	1,138
Income taxes payable	(1,235)	(2,785)	(557)	(517)	(59)
Current portion of long-term debt . .	(60,333)	(1,724)	—	421	91
	<u>(72,933)</u>	<u>(63,073)</u>	<u>4,012</u>	<u>(29,026)</u>	<u>417</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (76,463)</u>	<u>\$ 89,675</u>	<u>\$ 8,283</u>	<u>\$ (12,741)</u>	<u>\$ (5,424)</u>

See accompanying notes to the combined financial statements.

INSPIRATION RESOURCES GROUP
(formerly Plateau Group)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 1982, 1981, 1980, 1979 and for the period from inception,
June 2, 1978 to December 31, 1978

Plateau Holdings Inc. changed its name to Inspiration Resources Corporation on April 26, 1983. All references to Plateau Holdings Inc. and Plateau Group have been amended to reflect this change.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles:

The financial statements are prepared in conformity with generally accepted accounting principles in the United States and are presented in U.S. dollars.

Principles of consolidation and combination:

The Inspiration Resources Group combined financial statements include companies owned by the two principal shareholders, Hudson Bay Mining and Smelting Co., Limited (HBMS) and Mineral and Resources Corporation Limited (Minorco). Each owns approximately 50% of the group companies. At December 31, 1982, it is comprised of Inspiration Resources Corporation (Inspiration Resources), on a consolidated basis, Ladycliff N.V. (Ladycliff)—the offshore debt financing company to Inspiration Resources and Trend International Limited (Trend)—a petroleum and natural gas company. The investments in partnerships are accounted for by the equity method of accounting.

Shareholders' contributions to the Inspiration Resources Group are determined by combining the capital structures of the companies in the Inspiration Resources Group.

Ladycliff and Inspiration Resources were incorporated June 2, 1978. Inspiration Resources acquired 73% of Inspiration Consolidated Copper Company (Inspiration Copper) during 1978. During 1979, Inspiration Resources increased its ownership in Inspiration Copper to 100%. During 1981, Inspiration Resources, directly or indirectly, acquired 100% of the common stock of Bailey Mining Co., Inc. (Bailey), Harman Mining Corporation (Harman Mining), Sovereign Coal Group, Inc. (Sovereign), and Terra Chemicals International, Inc. (Terra), and incorporated Inspiration Coal Inc. (Inspiration Coal) and Inspiration Mines Inc. (Inspiration Mines). Trend was combined with the Inspiration Resources Group effective May 1982.

Inventories, materials and supplies:

Inventories of metals, coal, fertilizers and agricultural chemicals and all other saleable products are valued at the lower of cost or estimated net realizable value; metal by-products are valued at estimated net realizable value. Cost is substantially determined on the last-in, first-out basis. Materials and supplies are valued at cost.

Investments:

Marketable securities held as portfolio or noncurrent investments are stated at the lower of cost and market. Temporary declines in market value are charged to the valuation allowance account, a separate component of net equity.

Property, plant and equipment:

Mineral properties—Exploration costs with respect to mines operating, or in the development stage, are capitalized as mineral properties and amortized by the unit-of-production method based on estimated recoverable reserves; all other mineral exploration costs are written off to expense as incurred. Expenditures for projects deemed commercially productive are capitalized with a corresponding credit to earnings at the time this determination is made.

Petroleum and natural gas properties—The full cost method of accounting is followed whereby all costs relating to the exploration for, and development of, petroleum and natural gas properties are capitalized, whether productive or non-productive. Cost centers are established on a country by country basis, except for North America for which substantially all activities are in the United States. Proceeds from the disposal of properties are deducted from the assets without recognition of gain or loss. Such capitalized costs are amortized by the unit-of-production method based on estimated proved reserves.

Plant and equipment—Expenditures for plant and equipment additions, major replacements and improvements are capitalized; the cost of maintenance and repairs is charged to operating expense as incurred.

Interest expense related to financing of significant capital expenditures is capitalized. Depreciation of plant and equipment is charged to operations on a straight-line basis over their estimated useful lives or by the unit-of-production method based on estimated recoverable reserves.

Income taxes:

The Inspiration Resources Group follows a tax allocation method of providing for income taxes and has three distinct tax reporting units, Inspiration Resources—on a consolidated basis, Ladycliff and Trend. Tax credits realized on plant and equipment acquisitions are used currently to reduce the provision for federal income taxes (flow-through method).

2. PROPOSED REORGANIZATION

HBMS, Minorco and Inspiration Resources entered into an agreement dated as of May 14, 1983 setting out the terms of a reorganization, which is conditional upon the approval of HBMS shareholders, regulatory authorities and a court. The proposed reorganization will pool the joint interests of HBMS and Minorco in the Inspiration Resources Group with HBMS' other interests into a U.S. public company, with HBMS as a Canadian subsidiary. After completion of the proposed reorganization, it is anticipated that, subject to market conditions, public offerings of additional equity shares will be made. Minorco has agreed to purchase approximately \$US80,000,000 of additional share capital.

HBMS, through its major (44%) shareholder, Minorco Canada Limited (Mincan), is associated with Minorco, which indirectly owns 100% of Mincan. As part of the reorganization, Trend will become a subsidiary of Inspiration Resources and Ladycliff will cease to be a member of the Inspiration Resources Group.

Under the terms of the proposed reorganization, HBMS shareholders, other than Minorco, through Mincan, will be offered the option of converting their common shares into special shares of HBMS on the basis of 1.10 special shares for each existing common share. As an alternative, to encourage an increased public participation in the common shares of Inspiration Resources, HBMS shareholders, other than Mincan, will be offered the opportunity to elect, at the time of the reorganization, to exchange directly for Inspiration Resources common shares on the basis of 1.15 Inspiration Resources common shares for each existing HBMS common share.

Minorco has agreed that the premium in Inspiration Resources offered to HBMS shareholders, other than Mincan, will be provided by a corresponding reduction of Minorco's direct and indirect equity in Inspiration Resources. As a result of these transactions and assuming subsequent full exercise of the exchange rights attached to the HBMS special shares, the ownership in Inspiration Resources by shareholders other than Minorco will be approximately 40%. Minorco has indicated, however, that it will initially hold less than 50% of the voting rights in Inspiration Resources.

The special shares of HBMS will be non-voting in HBMS but arrangements will be made so that each special share will have the same vote in Inspiration Resources as each Inspiration Resources common share. The special shares will be entitled to dividends in the same amounts, if any, as are payable on the Inspiration Resources common shares and will be exchangeable for Inspiration Resources common shares for a period of ten years, which period may be extended at HBMS' option, on the basis of one Inspiration Resources common share for each special share subject to adjustment in accordance with the share conditions of the HBMS special shares. After that period, the remaining special shares will be automatically exchanged into Inspiration Resources common shares on a one-for-one basis subject to such adjustments. Subject to the requisite approvals, the special shares will be listed in Canada, and the common shares of Inspiration Resources will be listed in the U.S.

As a condition of the proposed reorganization, Inspiration Resources has agreed to guarantee the payment obligations of HBMS under the trust indentures covering HBMS 9% and 10 ½% unsecured debentures. As at December 31, 1982 the total debentures outstanding amounted to \$US59,385,000.

3. COMBINATIONS, ASSET PURCHASES AND ACQUISITIONS

During 1982, Trend was combined with the Inspiration Resources Group and one significant asset purchase was completed.

- (a) By arrangement, HBMS and Minorco became equal owners of Trend, effective May 1982. As part of this arrangement, Trend acquired a 27% interest in Adobe Oil & Gas Corporation (Adobe) (Note 6) for \$US105,241,000 by issuance of \$US51,346,000 in convertible preferred shares and a cash payment of \$US53,895,000. This combination of Trend with the Inspiration Resources Group was accounted for using the pooling of interests method effective May 1982 without prior period restatement.

- (b) In February 1982, Inspiration Coal acquired all of the Wheelwright, Kentucky coal properties excluding working capital, of Island Creek Coal Company, at a cost of \$US26,000,000. This acquisition was financed by \$US17,000,000 of 14%, 5 year notes (repaid in full in October 1982) with the balance paid in cash. Additionally, Inspiration Coal assumed certain contingent liabilities under which future payments, if any, would be treated as a retroactive adjustment to the purchase price.

During 1981, the Inspiration Resources Group completed the following significant acquisitions through the purchase of common and preferred stock of the respective companies.

- (a) Effective January 1, 1981, Inspiration Coal acquired all of the common stock outstanding of Bailey, a coal mining operation, of Bypro, Kentucky for a purchase price of \$US250,000 and subsequent advances of \$US8,310,000, which exceeded Inspiration Resources' equity in the underlying net assets by \$US2,697,000 which has been allocated to property, plant and equipment and materials and supplies.
- (b) On June 30, 1981, Inspiration Resources acquired all of the common stock outstanding and 63% of the preferred stock outstanding of Terra of Sioux City, Iowa, for a total consideration of \$US120,227,000 which exceeded Inspiration Resources' equity in the underlying net assets by \$US39,325,000 which has been allocated to property, plant and equipment. HBMS transferred to Inspiration Resources its interest in approximately 55% of the common stock and 63% of the preferred stock of Terra as part of the transaction. Minorco provided an equivalent amount of cash, a portion of which was used to purchase the minority interests in the common stock.
- (c) Effective July 8, 1981, Inspiration Coal acquired all of the common stock outstanding of Sovereign Coal Group of Bluefield, West Virginia and its associated company, Harman Mining of Harman, Virginia, two coal mining operations, for a total cost of \$US151,602,000 including redundant working capital of \$US59,602,000. The net cost attributable to coal assets was, including normal operating levels of working capital, \$US92,000,000 which exceeded Inspiration Resources' equity in the underlying net assets by \$US85,659,000 which has been allocated to identifiable assets.

The 1982 combination of Trend and the 1981 purchase considerations were assigned as follows:

	1982	1981			
	Trend	Bailey	Terra	Sovereign	Total
		(\$US in thousands)			
Property, plant and equipment (net)	\$112,314	\$ 7,551	\$ 74,517	\$ 89,178	\$171,246
Investments	105,241	—	—	—	—
Other assets (including 1981 purchased goodwill)	7,582	445	15,144	332	15,921
	225,137	7,996	89,661	89,510	187,167
Noncurrent liabilities	77,688	3,729	31,097	7,957	42,783
Minority interest in preferred stock	—	—	5,581	—	5,581
	147,449	4,267	52,983	81,553	138,803
Working capital	(297)	(4,017)	67,244	70,049	133,276
Capital contributed in 1982/ purchase price in 1981	<u>\$147,152</u>	<u>\$ 250</u>	<u>\$120,227</u>	<u>\$151,602</u>	<u>\$272,079</u>

During the period June 2, 1978 to December 31, 1980, the Inspiration Resources group was comprised of Inspiration Resources and Ladycliff, which were incorporated June 2, 1978, and Inspiration Copper.

On June 6, 1978 HBMS and Minorco transferred their 38.5% interest in Inspiration Copper to Inspiration Resources for a total consideration of \$US46,012,000. From June 29, 1978 to September 18, 1978 Inspiration Resources acquired an additional 34.5% interest in Inspiration Copper at a cost of \$US38,519,000. During 1979, Inspiration Resources acquired the remaining common stock held by minority interests for a total consideration of \$US28,046,000 in cash. In 1982, 1981 and 1980, Inspiration Copper redeemed \$US130,000, \$US204,000 and \$US219,000, respectively, of the Class A preferred stock held by the minority interests.

The purchase of 27% and 73% of the common stock of Inspiration Copper in 1979 and 1978 respectively, was assigned as follows:

	Inspiration Copper		
	1979	1978	Total
	(\$US in thousands)		
Property, plant and equipment (net)	\$ 27,226	\$ 75,967	\$103,193
Other assets	738	1,926	2,664
	27,964	77,893	105,857
Noncurrent liabilities	6,244	18,810	25,054
Minority interest in preferred stock	1,401	—	1,401
	20,319	59,083	79,402
Working capital	7,727	25,448	33,175
Purchase price	<u>\$ 28,046</u>	<u>\$ 84,531</u>	<u>\$112,577</u>

Each acquisition has been accounted for using the purchase method and the purchased goodwill arising therefrom is being amortized over periods of up to eighteen years.

Had the 1982 combination of Trend and the acquisitions described above occurred at January 1, 1979, the pro forma unaudited results of operations for the four years ended December 31, 1982 would have been as follows:

	1982	1981	1980	1979
	(\$US in thousands)			
Net revenues	\$576,367	\$655,459	\$607,886	\$498,320
Net earnings (loss)	(42,884)	(12,434)	3,181	4,204

The above unaudited pro forma results of operations are based upon financial information furnished by the management of the respective companies. The results have been adjusted to reflect depreciation and amortization of assets recognized in recording the 1981 acquisitions. Pro forma results of operations have not been provided for 1978 as the Inspiration Resources Group did not exist prior to June 1978 and therefore the results would not be comparative or meaningful.

4. INVENTORIES

	1982	1981
	(\$US in thousands)	
Metals	\$ 17,192	\$ 27,264
Coal	1,998	1,821
Agricultural chemicals	70,588	58,445
Materials and supplies	14,092	16,199
	<u>\$103,870</u>	<u>\$103,729</u>

Substantially all of the Inspiration Resources Group's inventories are determined by the last-in, first-out method. Had the first-in, first-out method of inventory valuation been used, inventories would have been \$US22,468,000 and \$US23,636,000 higher than those reported at December 31, 1982 and 1981 respectively. During 1982, 1981, and 1980 liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with current costs had the effect of reducing Inspiration Resources Group's net loss by approximately \$US2,646,000, \$US652,000, \$US748,000, respectively; none in 1979 and 1978.

5. SHORT-TERM LINES OF CREDIT AND BORROWINGS

The Inspiration Resources Group has unused short-term lines of credit with banks at December 31, 1982 aggregating approximately \$US54,200,000; interest is generally at bank prime rates.

Terra has a \$US30,000,000 revolving credit agreement under which it has agreed to maintain average compensating balances and certain restrictive covenants including the reduction of the aggregate principal amount outstanding to at least \$US5,000,000 for 30 consecutive days annually.

The maximum amounts of short-term borrowings outstanding during 1982, 1981, 1980, 1979 and 1978 were \$US45,800,000, \$US29,500,000, \$US75,000,000, \$US22,000,000 and nil respectively, and the approximate average amounts outstanding during each year were \$US12,800,000, \$US11,800,000, \$US41,300,000, \$US5,400,000 and nil respectively, with weighted average interest rates of 15.5%, 19.0%, 15.4%, 13.0% and nil.

Accounts payable includes bank loans of \$US900,000 in 1982 and \$US3,000,000 in 1981.

6. INVESTMENTS

	1982	1981
	(\$US in thousands)	
Adobe	\$ 66,324	\$ —
Investments in and advances to partnerships	13,041	13,923
Other unquoted investments—at cost	348	453
	<u>\$ 79,713</u>	<u>\$ 14,376</u>

Trend acquired a 27% interest in Adobe for \$US105,241,000 in May 1982 (Note 3). This investment is accounted for by the cost method because Trend does not exercise a significant influence over Adobe. Temporary declines in market value are recognized by charging the valuation allowance account, a separate component of net equity. The amount of the temporary decline at December 31, 1982 was \$US38,917,000.

The investments in and advances to partnerships are substantially represented by Terra's 25% interest in an ammonia production facility and 65% interest in a nitrogen product upgrading facility. The investments in partnerships consist principally of Terra's equity contributions and deferred pre-operating costs, which are being amortized over five years.

7. PROPERTY, PLANT AND EQUIPMENT

	1982	1981	1980
	(\$US in thousands)		
Metals	\$321,389	\$315,103	\$283,432
Coal	127,831	98,760	—
Agricultural chemicals	89,109	77,152	—
Petroleum	200,348	—	—
	<u>738,677</u>	<u>491,015</u>	<u>283,432</u>
Less accumulated depreciation and depletion	<u>(267,273)</u>	<u>(160,566)</u>	<u>(140,054)</u>
	<u>\$471,404</u>	<u>\$330,449</u>	<u>\$143,378</u>

8. COMMITMENTS AND CONTINGENCIES

- (a) Inspiration Copper, as part of its revolving credit agreement (Note 9(e)) and related loan agreements, has certain smelter production tests and limitations on working capital, indebtedness, cash flow, tangible net worth, liens and unfunded vested accrued benefits.
 - (i) Under the tangible net worth covenant Inspiration Copper is required to maintain consolidated tangible net worth of at least \$US90,000,000 until December 30, 1984, at which time the requirement increases to \$US125,000,000. During 1982, compliance with the minimum tangible net worth requirement was met by Inspiration Resources purchasing \$US9,057,000 of class A preferred shares and \$US222,000 of common stock and injecting \$US33,724,000 in contributed surplus into Inspiration Copper. In 1981, Inspiration Resources purchased \$US19,323,000 of class A preferred shares. Due to the anticipated continuation of operating losses during 1983, it is likely that additional capital contributions will be required. Inspiration Resources has indicated its present intention to provide or otherwise arrange sufficient financial support to Inspiration Copper to maintain compliance with the tangible net worth requirement in 1983.
 - (ii) The cash flow covenant, which commences June 30, 1983, requires Inspiration Copper to maintain a ratio of 1.0:1 through December 31, 1984, and 1.5:1 thereafter, of consolidated cash flow to the sum of the current portion of long-term liabilities and interest paid for the preceding four fiscal quarters. Due to the losses in the last two quarters of 1982 and the projected losses in the first two quarters of 1983, Inspiration Copper will be unable to meet this covenant. Inspiration Copper has obtained an agreement amendment for 1983, from the banks, which allows capital contributions from Inspiration Resources to be included in the definition of cash flow. Inspiration Resources has indicated its present intention to provide or otherwise arrange sufficient financial support to Inspiration Copper to enable Inspiration Copper to satisfy the cash flow requirement.

(iii) The smelter production covenant requires Inspiration Copper's smelter capacity to be a minimum of 99,000 tons of copper per year for 1982, 133,000 tons by December 31, 1983 and 160,000 tons by December 31, 1984. During 1982, prior to the shutdown of Inspiration Copper's major toll customer, the smelter operated at an annual production level well in excess of the required 99,000 tons. Inspiration Copper is presently re-evaluating its smelter options in light of the probable loss of its major toll customer after the third quarter of 1984, which may preclude its reaching the 133,000 ton level by the end of 1983. Inspiration Copper and the banks continue to discuss this requirement.

Inspiration Copper and Inspiration Resources have also agreed to approach the group of three banks to further renegotiate the terms and conditions of the revolving credit agreement following conclusion of the proposed reorganization (Note 2) and in any event no later than December 31, 1983.

- (b) Inspiration Coal was fully drawn under its existing credit facilities (Note 9(b)) at January 17, 1983. Inspiration Resources has given assurances that its present intention is to continue to provide or otherwise arrange sufficient support to meet the financial obligations of Inspiration Coal.
- (c) Terra is contingently liable for discounted notes subject to recourse aggregating \$US6,200,000 at December 31, 1982; and is a 25% guarantor of \$US64,440,000 of first mortgage notes payable of the ammonia production facility partnership referred to in Note 6.
- (d) The Inspiration Resources Group is committed to various noncancellable leases for mining equipment, transportation and storage facilities expiring at various dates through 1996 and requiring aggregate minimum rental payments as follows:

	(\$US in thousands)
1983.....	\$8,782
1984.....	7,710
1985.....	6,561
1986.....	4,097
1987 and thereafter	4,613

Total rental expense under all leases, including short-term cancellable leases, was approximately \$US14,283,000 for 1982; \$US8,500,000 for 1981; \$US2,089,000 for 1980; nil for 1979 and 1978.

9. LONG-TERM DEBT

	1982	1981
	(\$US in thousands)	
INSPIRATION RESOURCES:		
9% notes, net of unamortized premium ((a) below).....	\$122,615	\$119,509
INSPIRATION COAL:		
Revolving credit and term loan facility ((b) below)	62,000	—
Notes	259	497
INSPIRATION COPPER:		
Industrial Development Authority ((c) below)	10,786	11,119
Industrial Development Authority ((d) below).....	4,400	8,000
Revolving credit facility ((e) below)	69,926	70,817
Other	2,897	4,331
TERRA:		
9½% unsecured notes ((f) below)	14,500	15,500
8¾% unsecured notes ((g) below)	15,000	15,000
Industrial Revenue Bonds ((h) below)	5,591	—
Other	2,146	667
TREND:		
Revolving credit facility ((i) below)	64,494	—
	374,614	245,440
Included in current liabilities	66,977	6,644
	<u>\$307,637</u>	<u>\$238,796</u>

The Inspiration Resources Group has unused commitments for long-term financing, under the various facilities described below, aggregating approximately \$US93,571,000 at December 31, 1982.

- (a) The 9% notes of Inspiration Resources, due January 15, 1983, are supported by letters of credit drawn under a long-term credit arrangement signed June 29, 1981 with a major U.S. bank. The \$US138,946,000 revolving-term credit facility is guaranteed severally by Inspiration Resources' two principal shareholders. The agreement provides for reduction in the available commitment to \$US126,000,000 on January 15, 1983, \$US112,000,000 on July 15, 1983 and further reductions to \$US84,000,000 by July 31, 1985, at which time the loan converts to a term loan repayable in six annual installments commencing July 31, 1986, with a number of interest rate alternatives at normal market rates. A commitment fee of three-eighths of 1% per annum is charged on the daily unused portion on the revolving credit loans.

Inspiration Resources' two principal shareholders advanced \$US60,000,000 to Inspiration Resources on January 17, 1983 to assist in repaying the 9% notes with the balance of the required funds being advanced under the long-term credit arrangement referred to above. Should the proposed reorganization (Note 2) not proceed, the shareholders have agreed to capitalize the advances on or before December 30, 1983. The shareholders' advances bear interest at the London Inter-bank Offering Rate plus three-quarters of 1%.

- (b) A \$US75,000,000 revolving credit and term loan facility was put in place on September 17, 1982 with a major U.S. bank, with a number of interest rate alternatives at normal market rates. The revolving credit loans are convertible into a six-year term loan commencing September 17, 1986. The principal on the term loan is payable in twelve equal semi-annual installments, commencing March 17, 1987. The facility is secured by substantially all the assets of Inspiration Coal.

- (c) The loan from the Industrial Development Authority of Gila County, Arizona is to be used to finance construction of pollution control facilities. The Industrial Development Authority obtained funds for this loan from the sale of tax-free Pollution Control Revenue Bonds in 1981. The Continental Illinois National Bank and Trust Company of Chicago has issued an irrevocable letter guaranteeing the payment of principal and interest on these bonds and such guarantee is supported by the credit agreement described in (e) below. Interest is 11¼%, and is payable on April 1 and October 1 each year through to April 2001. The bonds may be redeemed in whole or in part on or after April 1, 1991, at the option of Inspiration Copper.

The proceeds from the sale of the bonds were deposited with the Trustee and are invested in specified short-term investments (loan fund) until required by Inspiration Copper. At December 31, 1982 and December 31, 1981, the loan fund and investment fund of \$US79,214,000 and \$US78,881,000, respectively, were offset against the sale proceeds of \$US90,000,000 in stating the liability of Inspiration Copper to the Industrial Development Authority. Similarly, during 1982 and 1981, interest income of \$US10,369,000 and \$US9,342,000, respectively, earned from the investments was offset against interest expense.

- (d) The loan from the Industrial Development Authority of Gila County, Arizona was used to finance construction of pollution control facilities. The Industrial Development Authority obtained funds for this loan from the sale of tax-free Pollution Control Revenue Bonds to banks. Inspiration Copper has guaranteed the Authority's payment of principal and interest on these bonds. Interest is 75% of the prime rate charged by The Chase Manhattan Bank, N.A. Principal is being repaid in quarterly installments of \$US900,000 with a final payment of \$US800,000 due on February 15, 1984.

- (e) The \$US150,000,000 revolving credit facility with three banks is used for funding Inspiration Copper's general program of modernization, expansion and environmental control and for letter of credit support to the Pollution Control Revenue Bonds described in (c) above. The available credit from the revolving credit agreement can not be greater than \$US150,000,000 less the difference between the letter of credit and the amount in the loan fund ((c) above). Available credit at December 31, 1982 was \$US125,090,000 of which Inspiration Copper has a variety of borrowing options and interest rate alternatives at normal market rates. A commitment fee of three-eighths of 1% per annum is charged on the daily unused portion of the revolving credit loans. Commitment reductions commence December 31, 1984 with that reduction equal to any revolving credit commitment relating to unutilized funds in the loan fund plus, for this reduction and annually thereafter, one-eighth of the total commitment less any of the bond related letters of credit outstanding on the date of issuance with final reduction due December 31, 1990. Borrowings under the agreement may not exceed this net commitment after December 31, 1984. The facility is secured by

substantially all the assets of Inspiration Copper. The credit agreement expires December 31, 1990 and is extendible at the option of the participating banks for an additional ten-year term.

The revolving credit agreement and the loan agreements with the Industrial Development Authority ((c) and (d) above) place certain restrictions on Inspiration Copper, including certain limitations on working capital, indebtedness, cash flow, tangible net worth, liens and unfunded vested accrued benefits (Note 8(a)). There are no restrictions as to dividends.

- (f) The 9½% unsecured notes of Terra are repayable in annual installments of \$US1,000,000 from 1983 to 1995, with \$US1,500,000 due in 1996.
- (g) The 8¾% unsecured notes of Terra are repayable in annual installments of \$US1,000,000 from 1984 to 1998.
- (h) The Industrial Development Revenue Bonds (IDRB) of the City of Sioux City, Iowa, issued in 1982, are being used to finance construction of an office building. Proceeds of the \$US10,000,000 loan not expended are held in escrow and are invested by the Trustee. At December 31, 1982, the invested portion of \$US4,409,000 was offset against the proceeds in stating Terra's liability. During 1982, interest income of \$US729,000 earned from the investments was offset against interest expense. The bonds maturing on May 1, 2001 and on May 1, 2011 are subject to sinking fund requirements with the first annual repayment of \$US60,000 commencing in 1987 and increasing to \$US1,240,000 in 2011. Interest of 13¼% and 13½% is being charged on \$US2,530,000 maturing May 1, 2001 and \$US7,470,000 maturing May 1, 2011, respectively.

The IDRB are secured by a first lien on the office building as well as an irrevocable letter of credit from a U.S. bank guaranteeing payment of interest and principal.

- (i) The \$US80,000,000 credit facility with a major U.S. bank, issued in 1982, takes the form of a revolving loan to June 1984 and then converts to a term loan whereby principal is to be repaid in 20 equal quarterly installments with the final payment due June 1989, with a number of interest rate alternatives at normal market rates.

The facility is secured by the investment in Adobe. The credit agreement imposes certain restrictive covenants including limitations on indebtedness, disposal of property, investments, and dividends and requires Trend to meet certain minimum financial tests.

Net interest and related expenses on long-term debt were: 1982—\$US39,669,000; 1981—\$US18,990,000; 1980—\$US6,044,000; 1979—\$US1,596,000 and 1978—\$US925,000. Interest capitalized was \$US1,075,000 in 1982; \$US2,826,000 in 1981; \$US866,000 in 1980; none was capitalized in 1979 and 1978.

Principal payments, based on December 31, 1982 outstanding borrowings, required over the next 5 years are as follows:

	(\$US in thousands)
1983	\$66,977
1984	34,517
1985	22,074
1986	42,526
1987	40,852

10. COMPENSATION BENEFITS

Inspiration Coal is self-insured for a significant portion of workmen's compensation claims related to both traumatic and "Black Lung" benefits. Traumatic injury claims are charged to operations in the year of occurrence. Anticipated "Black Lung" benefits, based on an actuarial study, have been provided for by annual charges to operations. Total compensation benefits expense in 1982 and 1981, including the above, was \$US1,801,000 and \$US917,000 respectively.

11. DEFERRED TAXES, INCOME TAXES AND ROYALTIES

The Inspiration Resources Group has three tax reporting units, Inspiration Resources—on a consolidated basis, Ladycliff and Trend. Inspiration Resources consolidated is in a tax loss position for U.S. federal income tax purposes and the majority of U.S. states and accordingly does not record future income tax benefits. Inspiration Resources consolidated follows a tax allocation method of providing for U.S. state income taxes in

those jurisdictions for which it has taxable income. Trend follows a tax allocation method of providing for income taxes. The deferred income tax balances in the combined statement of financial position at December 31, 1982 for Inspiration Resources consolidated and Trend were \$US699,000 and \$US5,576,000, respectively.

Income taxes and royalties:

	Inspiration Resources Consolidated and Ladycliff					
	Trend					
	1982	1982	1981	1980	1979	1978
		(\$US in thousands)				
Federal income taxes:						
Current— U.S.	\$ 674	\$(9,826)	\$ —	\$ 146	\$3,220	\$ —
— Foreign	10,942	250	245	117	107	59
Deferred— U.S.	(4,959)	—	—	—	—	—
— Foreign	(2,008)	—	—	—	—	—
State income taxes:						
Current	119	(1)	293	300	150	—
Deferred	(119)	21	—	—	—	—
Royalties	750	—	282	—	—	—
	<u>\$ 5,399</u>	<u>\$(9,556)</u>	<u>\$ 820</u>	<u>\$ 563</u>	<u>\$3,477</u>	<u>\$ 59</u>

Income taxes have been calculated using the following effective income tax rates. The reconciliation of the U.S. federal statutory income tax rate and the effective income tax rate is as follows:

	Inspiration Resources Consolidated and Ladycliff					
	Trend					
	1982	1982	1981	1980	1979	1978
Statutory income tax rate	46.0%	(46.0)%	(46.0)%	(46.0)%	46.0%	(46.0)%
Tax losses	—	52.3	46.0	46.0	—	46.0
Difference between U.S. and foreign tax rates	6.0	—	—	—	—	—
Recognition of investment tax credit benefit	(8.3)	—	—	—	—	—
Nontaxable income	(10.0)	(19.1)	—	—	—	—
Depletion	—	—	—	—	(6.6)	—
Other	(2.2)	(1.4)	1.3	3.0	10.5	1.8
Effective income tax rate	<u>31.5%</u>	<u>(14.2)%</u>	<u>1.3%</u>	<u>3.0%</u>	<u>49.9%</u>	<u>1.8%</u>

Inspiration Resources consolidated has unrecorded income tax benefits related to prior years' tax losses carried forward of \$US153,416,000 including certain restricted losses of \$US11,135,000 which expire in varying amounts from 1992 through 1997. In addition, there are investment tax credit carry-forwards of \$US11,559,000 which expire in varying amounts from 1988 through 1997.

Deferred income taxes represent tax reductions applicable to the timing difference between the amount of depreciation and depletion claimed in the year for income tax purposes and the amount charged to earnings. The tax effect of this difference was \$US7,065,000 in 1982.

Prior to 1978, Trend determined its Indonesian income taxes under a contract with the government which generally allowed for deduction of all costs incurred, although certain of these costs were capitalized and amortized for financial reporting purposes. It was not appropriate to provide for deferred Indonesian income taxes relative to these timing differences since additional future taxes were to be met by increased oil allocations under the production-sharing contract. Effective January 1, 1978, the production-sharing contract was changed and Indonesian income taxes are now based on revenue and expense; deferred income taxes are being provided for on timing differences arising after that date. The capital costs as at December 31, 1977 will continue to be amortized and charged to earnings of future years as a nondeductible item. The unamortized balance of these nondeductible capital costs as at December 31, 1982 was \$US13,600,000.

The benefit in years prior to 1982 of Trend's foreign tax credits resulted in that company not providing for deferred taxes on all timing differences arising prior to January 1982. Trend's carrying value of property, plant and equipment exceeds its tax basis by approximately \$US28,000,000 at December 31, 1982.

12. MINORITY INTEREST

Minority interest is comprised of \$US5,884,000 at December 31, 1982 and \$US6,558,000 at December 31, 1981, of Inspiration Resources subsidiaries' preferred stock held by third parties and \$US555,000 at December 31, 1982 of Trend subsidiaries' common stock held by third parties.

Terra is required to redeem \$US510,000 of preferred stock held by third parties each year until all of the preferred stock is redeemed.

13. SHAREHOLDERS' CONTRIBUTIONS AND EARNINGS PER SHARE

(a) Shareholders' contributions to the Inspiration Resources Group are determined by combining the capital structures of the companies in the group as follows:

	1982	1981
	(\$US in thousands)	
Ladycliff		
Preferred stock:		
Authorized and issued—10,000, 5% non-cumulative shares of \$US1 par value	\$ 10	\$ 10
Common stock:		
Authorized—40,000 voting shares of \$US1 par value		
Issued—20,000 voting shares	20	20
	30	30
Contributed capital	158,449	158,449
	158,479	158,479
Inspiration Resources		
Preferred stock:		
Authorized and issued—2 redeemable voting \$US5 non-cumulative shares of \$US1,700 par value	3	3
Common stock:		
Authorized—100,000 voting shares of \$US1 par value		
—100,000 non-voting shares of \$US1 par value		
Issued—24,256 voting common shares	24	24
—18,824 non-voting common shares	19	19
	46	46
Contributed capital	110,123	110,121
	110,169	110,167
Trend (Note 3)		
Preferred stock:		
Authorized—110,000 class B convertible shares of \$US24 par value		
—40,000 class C convertible shares of \$US20 par value		
Issued—34,272 class B convertible shares	823	—
—33,876 class C convertible shares	677	—
Common stock:		
Authorized—75,000 class A ordinary shares of \$US24 par value		
—75,000 class D ordinary shares of \$US24 par value		
Issued—63,792 class A ordinary shares	1,531	—
—63,792 class D ordinary shares	1,531	—
	4,562	—
Contributed capital	142,590	—
	147,152	—
Inspiration Resources Group share capital	\$415,800	\$268,646

(b) Due to the capital structure, earnings per share information would not be meaningful and therefore has not been provided.

14. INTEREST AND OTHER INCOME

	1982	1981	1980	1979	1978
	(\$US in thousands)				
Interest income.....	\$ 5,613	\$ 4,434	\$ 43	\$ 465	\$ 433
Sulfuric acid sales.....	1,797	2,873	4,191	2,404	1,262
Fertilizer service revenue.....	3,123	485	—	—	—
Gain on forward copper sales.....	—	2,408	—	—	—
Leasing income.....	1,969	—	—	—	—
Gain on sale of investments.....	3,260	—	—	—	—
Miscellaneous.....	3,399	1,223	1,150	205	(619)
	<u>\$19,161</u>	<u>\$11,423</u>	<u>\$5,384</u>	<u>\$3,074</u>	<u>\$1,076</u>

15. RETIREMENT PLANS

The Inspiration Resources Group and its subsidiaries maintain non-contributory trustee pension plans which cover substantially all salaried and hourly paid employees. Total cost of the plans, which included amortization of past-service costs over 30 to 40 years, approximated \$US4,478,000 in 1982; \$US4,200,000 in 1981; \$US2,562,000 in 1980; \$US3,243,000 in 1979 and \$US1,583,000 in 1978.

A comparison of accumulated plan benefits and plan net assets is presented below:

	1982			1981	
	Inspiration Copper	Terra	Trend	Inspiration Copper	Terra
	(\$US in thousands)				
Actuarial present value of accumulated plan benefits:					
Vested	\$36,879	\$3,263	\$233	\$35,635	\$2,386
Non-vested	3,920	1,258	205	4,525	467
	<u>\$40,799</u>	<u>\$4,521</u>	<u>\$438</u>	<u>\$40,160</u>	<u>\$2,853</u>
Net assets available for benefits	<u>\$33,952</u>	<u>\$7,604</u>	<u>\$381</u>	<u>\$34,416</u>	<u>\$6,449</u>
Assumed actuarial weighted average rate of return	<u>8%</u>	<u>7½%</u>	<u>6%</u>	<u>7%</u>	<u>7½%</u>

Inspiration Coal's pension expense for union employees covered by retirement plans administered by the Trustees of the United Mine Workers of America Health and Retirement Funds was \$US476,000 in 1982 and \$US642,000 in 1981. Inspiration Coal's relative position with respect to plan assets and accumulated plan benefits in this multi-employer plan has not been determined.

16. RELATED PARTY INFORMATION (refer to Note 2)

HBMS provides administrative and marketing services in Toronto and New York to certain Inspiration Resources Group companies. The applicable costs are shared on a time or activity basis amongst the parties involved without any profit element. Total transactions with HBMS for these types of services amounted to \$US4,263,000 during 1982. Accounts payable included \$US498,000 at December 31, 1982 due to HBMS which arose from these services. Included in accounts receivable is \$US2,042,000 held on behalf of the Inspiration Resources Group by HBMS, and used for margin deposits to commodity brokers.

17. SUBSEQUENT EVENT

In February 1983, Inspiration Coal announced that it was temporarily idling its metallurgical coal operations at its Harman Mining division. Total assets at Harman Mining division at December 31, 1982, as included herein, were approximately \$US58,000,000. Total revenues and net loss were \$US27,855,000 and \$US4,837,000, respectively, for the year ended December 31, 1982. This action was taken as a cost containment measure.

Inspiration Coal's other coal mining operations are currently operating at less than 50% of capacity because of the depressed market for coal and overall are incurring operating losses before interest expense. Although immediate market improvement is not anticipated, Inspiration Coal will maintain its production facilities in a normal state of repair until coal markets improve, with financial assistance provided by Inspiration Resources as necessary.

Concurrent with the above action, Inspiration Coal reduced staff to reduce costs and significantly realigned its management structure to improve management efficacy.

18. BUSINESS SEGMENT REPORTING

Financial data for 1982 and 1981 pertaining to the business segments of the Inspiration Resources Group is given on the following pages. Prior to 1981, the Inspiration Resources Group's only segment was metals and accordingly no segment information is given for 1980, 1979 and 1978. Prior to the addition of Trend in June 1982, the Inspiration Resources Group's operations were conducted within the United States and accordingly no geographic information is given for 1981. The segments are defined as follows:

<u>Business segment</u>	<u>Operations</u>
Metals	Exploration, mining, milling, smelting, refining and sale of copper, gold, and silver.
Coal	Mining and sale of coal.
Agricultural chemicals	Production and sale of ammonia and derivatives for inorganic fertilizers, animal feed and seed; purchase of potash, phosphate and agricultural chemicals for production of mixed fertilizers and resale.
Petroleum	Exploration, development, production and sale of natural gas, oil and condensates.
Corporate	Corporate operations relate primarily to the management and administration of cash, short-term securities and investments.

	<u>Metals</u>	<u>Coal</u>	<u>Agricultural Chemicals</u>	<u>Petroleum</u>	<u>Corporate</u>	<u>Combined</u>
	(US\$ in thousands)					
1982						
RESULTS OF OPERATIONS						
FOR THE YEAR:						
REVENUE						
United States	\$141,401	\$70,552	\$273,343	\$ 8,983	\$ —	\$494,279
Southeast Asia	—	—	—	31,485	—	31,485
Canada	—	—	—	1,651	—	1,651
Net sales	141,401	70,552	273,343	42,119	—	527,415
Interest income:						
United States (Note (a) below)	187	437	3,880	876	233	5,613
Other income	6,087	1,058	4,066	2,623	(286)	13,548
TOTAL REVENUE	<u>\$147,675</u>	<u>\$72,047</u>	<u>\$281,289</u>	<u>\$45,618</u>	<u>\$ (53)</u>	<u>\$546,576</u>
OPERATING PROFIT (LOSS)						
United States	\$(14,061)	\$(5,397)	\$(7,193)	\$(745)	\$(53)	\$(27,449)
Southeast Asia	—	—	—	19,050	—	19,050
Canada	—	—	—	1,060	—	1,060
	<u>\$(14,061)</u>	<u>\$(5,397)</u>	<u>\$(7,193)</u>	<u>\$19,365</u>	<u>\$(53)</u>	<u>\$(7,339)</u>
General corporate expenses						(2,284)
Interest expense						(41,941)
Income taxes						4,157
LOSS FROM OPERATIONS						<u>\$ (47,407)</u>
FINANCIAL POSITION AT						
DECEMBER 31:						
Current assets	\$ 58,518	\$ 17,666	\$121,955	\$ 15,991	\$ 1,203	\$215,333
Current liabilities	31,175	4,878	63,837	14,037	63,672	177,599
Working capital	27,343	12,788	58,118	1,954	(62,469)	37,734
Other assets	165,161	129,115	90,731	187,096	663	572,766
Capital employed	192,504	141,903	148,849	189,050	(61,806)	610,500
Long-term debt	82,960	62,086	35,482	64,494	62,615	307,637
Deferred taxes and other	848	10,155	5,733	6,131	—	22,867
Net equity	<u>\$108,696</u>	<u>\$ 69,662</u>	<u>\$107,634</u>	<u>\$118,425</u>	<u>\$(124,421)</u>	<u>\$279,996</u>
IDENTIFIABLE ASSETS:						
United States	\$223,679	\$146,781	\$212,686	\$158,335	\$ 1,866	\$743,347
Southeast Asia	—	—	—	40,392	—	40,392
Canada	—	—	—	4,360	—	4,360
Total identifiable assets	<u>\$223,679</u>	<u>\$146,781</u>	<u>\$212,686</u>	<u>\$203,087</u>	<u>\$ 1,866</u>	<u>\$788,099</u>
Depreciation, depletion and amortization	<u>\$ 17,573</u>	<u>\$ 4,197</u>	<u>\$ 9,223</u>	<u>\$ 10,578</u>	<u>\$ —</u>	<u>\$ 41,571</u>
Capital expenditures	<u>\$ 9,512</u>	<u>\$ 4,803</u>	<u>\$ 13,138</u>	<u>\$ 16,759</u>	<u>\$ —</u>	<u>\$ 44,212</u>

(a) After elimination of intercompany interest income of \$US482,000 in agricultural chemicals, \$US34,000 in metals, and \$US8,111,000 in Corporate.

	Metals	Coal	Agricultural Chemicals	Corporate	Combined
1981					
RESULTS OF OPERATIONS					
FOR THE YEAR:					
REVENUE					
Net sales	\$157,701	\$48,490	\$106,044	\$ —	\$312,235
Interest income (Note (a) below)	133	964	3,015	322	4,434
Other income	5,152	547	1,006	284	6,989
Gain on sale of coal properties	10,402	—	—	—	10,402
TOTAL REVENUE	\$173,388	\$50,001	\$110,065	\$ 606	\$334,060
OPERATING PROFIT (LOSS)	\$ (12,669)	\$ 1,767	\$ 1,666	\$ 606	\$ (8,630)
General corporate expenses					(1,111)
Interest expense					(21,671)
Income taxes					(820)
LOSS FROM OPERATIONS					\$(32,232)
FINANCIAL POSITION AT					
DECEMBER 31:					
Current assets	\$ 66,130	\$ 17,507	\$122,131	\$ 13,095	\$218,863
Current liabilities	38,632	7,747	55,672	2,615	104,666
Working capital	27,498	9,760	66,459	10,480	114,197
Other assets	172,366	99,836	87,620	—	359,822
Capital employed	199,864	109,596	154,079	10,480	474,019
Long-term debt	89,238	260	29,789	119,509	238,796
Deferred taxes and other	978	9,067	5,578	—	15,623
Net equity	\$109,648	\$100,269	\$118,712	\$(109,029)	\$219,600
Depreciation, depletion and amortization	\$ 15,047	\$ 3,395	\$ 4,446	\$ —	\$ 22,888
Capital expenditures	\$ 33,624	\$ 1,564	\$ 3,083	\$ —	\$ 38,271

(a) After elimination of intercompany interest income of \$US5,698,000 in Corporate.

During the five years presented in these financial statements, the Inspiration Resources Group had sales to individual customers in excess of 10% of total revenues by business segments as follows:

	1982	1981	1980	1979	1978
Metals:					
Cities Service Company	\$24,925	\$31,037	\$24,725	\$23,325	\$ 8,733
Western Electric Company	—	—	21,234	27,168	10,047
The Anaconda Company	—	—	—	16,525	9,220
Coal:					
Thyssen Inc.	10,555	—	—	—	—
Pittson Coal Company	9,870	6,814	—	—	—
General Coal Company	8,707	9,299	—	—	—
Eastern Associated Coal Corp.	—	5,919	—	—	—
Petroleum:					
ITOH International Petroleum Co., Ltd.	31,485	—	—	—	—

19. SUPPLEMENTARY PETROLEUM INFORMATION

The Inspiration Resources Group's petroleum operations are carried out by Trend which follows the full cost method of accounting. The following selected financial information includes results on a pro forma basis for the first five months of 1982 and the full years of 1981 and 1980. No selected financial information has been provided for 1979 and 1978.

(a) Capitalized Costs, Costs Incurred and Revenue:

	Canada	United States	Southeast Asia
	(\$US in thousands)		
1982			
Capitalized costs at December 31:			
Proved properties.....	\$3,847	\$91,906	\$69,826
Unproved properties	—	21,610	8,524
Accumulated depreciation and depletion as at December 31	1,634	30,891	48,160
Property acquisition costs.....	—	5,243	—
Exploration costs	24	9,299	5,601
Development costs	243	3,544	5,581
Production (lifting) costs	700	5,047	16,788
Depreciation, depletion and amortization	330	10,760	5,753
Net revenues from proved reserves	2,190	10,181	35,615
Royalties included in net revenues	920	—	—
1981			
Capitalized costs at December 31:			
Proved properties.....	\$3,580	\$81,482	\$63,995
Unproved properties	—	25,416	3,173
Accumulated depreciation and depletion as at December 31	1,304	20,604	42,406
Property acquisition costs.....	—	25,315	3,000
Exploration costs	41	25,043	440
Development costs	242	7,619	4,319
Production (lifting) costs	391	5,071	13,997
Depreciation, depletion and amortization	206	10,047	4,790
Net revenues from proved reserves	1,766	10,309	35,787
Royalties included in net revenues	429	—	—
1980			
Capitalized costs at December 31:			
Proved properties.....	\$3,297	\$51,920	\$59,409
Unproved properties	—	6,176	—
Accumulated depreciation and depletion as at December 31	1,098	11,023	37,617
Property acquisition costs.....	38	5,923	—
Exploration costs	13	15,588	959
Development costs	485	6,160	2,095
Production (lifting) costs	271	2,403	10,815
Depreciation, depletion and amortization	321	3,511	5,382
Net revenues from proved reserves	2,217	4,759	43,134
Royalties included in net revenues	757	—	—

- Production (lifting) costs and depreciation, depletion and amortization provisions are charged to expense. All other cost data are capitalized.
- Capitalized costs relating to producing operations are depreciated and depleted using the unit-of-production method based on estimated proven reserves. For this calculation, natural gas reserves and production are stated in equivalent barrels of crude oil based on energy content.
- North American depreciation and depletion is allocated between the United States and Canada based upon estimated reserves' carrying values and related production.
- Net revenues are computed by subtracting production (lifting) costs from gross revenues.

(b) Estimated Proved Reserves of Oil and Gas (unaudited):

	Canada		United States		Southeast Asia
	Crude Oil	Natural Gas	Crude Oil	Natural Gas	Crude Oil
(Oil in thousands of barrels; Gas in millions of cubic feet)					
PROVED DEVELOPED AND UNDEVELOPED RESERVES:					
December 31, 1979.....	952	4,775	1,532	9,490	9,078
Revisions of previous estimates	(281)	(396)	(274)	(1,291)	1,479
Purchase of minerals-in-place	—	—	699	22,900	—
Extensions, discoveries, and other additions	—	—	554	7,559	—
Production	(78)	(222)	(255)	(472)	(1,668)
Sale of minerals-in-place	—	—	—	(22,302)	—
December 31, 1980.....	593	4,157	2,256	15,884	8,889
Revisions of previous estimates	6	(84)	(177)	(1,783)	4,181
Extensions, discoveries, and additions	—	—	293	2,915	—
Production	(66)	(199)	(334)	(1,385)	(1,420)
December 31, 1981.....	533	3,874	2,038	15,631	11,650
Revisions of previous estimates	67	218	9	(5,242)	967
Extensions, discoveries, and additions	—	—	892	2,858	—
Production	(71)	(179)	(373)	(1,607)	(1,463)
December 31, 1982.....	<u>529</u>	<u>3,913</u>	<u>2,566</u>	<u>11,640</u>	<u>11,154</u>
PROVED DEVELOPED RESERVES:					
December 31, 1979.....	<u>882</u>	<u>4,775</u>	<u>1,242</u>	<u>8,492</u>	<u>9,078</u>
December 31, 1980.....	<u>593</u>	<u>4,157</u>	<u>1,566</u>	<u>12,070</u>	<u>8,889</u>
December 31, 1981.....	<u>533</u>	<u>3,874</u>	<u>1,853</u>	<u>14,336</u>	<u>11,650</u>
December 31, 1982.....	<u>529</u>	<u>3,913</u>	<u>2,130</u>	<u>10,173</u>	<u>11,154</u>

The table presents Trend's estimated proved crude oil and natural gas reserves. Indonesian reserves represent an entitlement to gross reserves in accordance with the production-sharing contract.

Proved reserves are estimated quantities of crude oil, natural gas and natural gas liquids which have been demonstrated, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions. The estimates are based on judgements and interpretations of data dependent upon uncertainties including market conditions, government action and the environment itself. Ultimate recovery from proved reserves may be different from these estimates.

The three years' estimates of oil and gas reserves were made by H.K. Van Poolen and Associates, Inc., for United States properties, and by McDaniel & Associates Consultants Ltd. for Canadian properties. Trend's entitlement to Indonesian reserves has been calculated by Trend's engineering staff.

During 1982, Trend acquired a 27% interest in Adobe of Midland, Texas. This investment has been accounted for on the cost method because Trend does not exercise a significant influence over Adobe and, accordingly, no estimated reserve information has been included for Adobe.

FUTURE NET REVENUES AND PRESENT VALUE OF FUTURE NET REVENUES FROM ESTIMATED PRODUCTION OF PROVED OIL AND GAS RESERVES (unaudited)

The following information on estimated future net revenues is computed by applying current prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to estimated future production of proved oil and gas reserves as of December 31, 1982. Estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves have been deducted from gross revenues in arriving at net revenues. These calculations assume continuation of existing economic conditions.

The present value of estimated future net revenues is computed by discounting the aggregate estimated future net revenues by ten percent per annum.

A. Future net revenue from estimated production of proved oil and gas reserves (\$US in thousands)

	Canada		United States		Southeast Asia	
	Proved developed and undeveloped	Proved developed	Proved developed and undeveloped	Proved developed	Proved developed and undeveloped	Proved developed
1983	\$ 1,553	\$ 1,553	\$13,475	\$14,666	\$21,970	\$21,970
1984	1,616	1,616	13,714	11,950	17,210	17,210
1985	1,597	1,597	9,783	9,075	15,255	15,255
Thereafter	11,954	11,954	37,261	29,745	42,702	42,702
Total	<u>\$16,720</u>	<u>\$16,720</u>	<u>\$74,233</u>	<u>\$65,436</u>	<u>\$97,137</u>	<u>\$97,137</u>

B. Present value of future net revenue (discounted at 10%) from estimated production of proved oil and gas reserves at December 31 (\$US in thousands)

	Canada		United States		Southeast Asia	
	Proved developed and undeveloped	Proved developed	Proved developed and undeveloped	Proved developed	Proved developed and undeveloped	Proved developed
1980	\$ 8,392	\$ 8,392	\$52,750	\$38,949	\$90,861	\$90,861
1981	7,962	7,962	55,861	51,591	85,672	85,672
1982	9,394	9,394	52,013	47,047	73,914	73,914

RESERVE RECOGNITION ACCOUNTING (unaudited)

In compliance with the rules and regulations of the Securities and Exchange Commission (SEC), the Inspiration Resources Group has prepared the following summary of oil and gas producing activities and changes in the present value of estimated future net revenues from proved oil and gas reserves on the basis of Reserve Recognition Accounting (RRA).

RRA represents a dramatic departure from full cost accounting. Under RRA, income is recognized at the time proved reserves are discovered, rather than when the reserves are produced. Earnings are computed by matching the present value of future net revenues from reserve discoveries against the costs, including future costs, of acquiring, exploring, developing and producing those reserves. Any subsequent revisions to the present value of future net revenues from proved reserves are included in RRA income in the year of revision. The costs associated with unevaluated properties are deferred pending determination of proved reserves. Significant gains or losses on the sale of unproved properties are recognized as income at the time of sale. The total provision for income taxes includes both a current and a deferred provision. The current provision is based on oil and gas activities during the period. The deferred provision is computed by first applying current statutory tax rates to the future taxable income to be generated from proved reserves and deducting the similarly computed liability as of the beginning of the year. Future taxable income is the difference between the RRA valuation of proved reserves and the related current tax basis of the properties involved, after taking into account permanent differences and investment tax credits. Sales of proved reserves are not recognized as income, but are included in the reconciliation of the present value of future net revenue from proved reserves from year-to-year.

Under full cost accounting, additions to proved reserves and changes in valuation of proved reserves do not immediately affect the earnings statement, unless the depreciation, depletion and amortization rate per unit has changed. In addition, sales proceeds are accounted for as adjustments of capitalized costs with no gain or loss recognized unless the relationship between capitalized costs and proved reserves are significantly altered.

It should be noted that the SEC has abandoned RRA as a potentially acceptable method of accounting for primary financial statements. The SEC's decision resulted, in part, from concern about the reliability of using reserve estimates and related estimated future net revenues as a basis for income measurement. Reported results under RRA have fluctuated significantly between years, resulting in an inappropriate measure of the results of a company's oil and gas producing activities.

CONSOLIDATED SUMMARY OF OIL AND GAS ACTIVITIES ON THE BASIS OF RESERVE RECOGNITION ACCOUNTING

For the years ended December 31, 1982, 1981 and 1980

	1982	1981	1980
	(\$US in thousands)		
Additions and revisions to estimated proved oil and gas reserves:			
Additions to estimated proved reserves, net	\$16,428	\$10,190	\$ 16,125
Revisions to estimates of reserves proved in prior years:			
Changes in prices	(4,309)	6,290	45,866
Other	(1,838)	8,738	16,006
Accretion of discount	14,949	15,200	13,409
	25,230	40,418	91,406
Less evaluated acquisition, exploration and development costs incurred including impairments (Note (a) below)	(9,854)	(42,088)	(19,474)
Net gain on sale of unproved properties	6,579	4,834	—
RRA INCOME BEFORE OTHER REVENUE (EXPENSES) ...	21,955	3,164	71,932
Other revenue (expenses):			
Interest and other income	5,631	5,661	3,657
General and administrative	(2,688)	(2,624)	(1,437)
Interest on long and short-term debt	(4,472)	(1,127)	(174)
Total other revenues (expenses)	(1,529)	1,910	2,046
RRA INCOME BEFORE TAXES AND MINORITY INTERESTS (Note (b) below)	20,426	5,074	73,978
Provision for income taxes	11,094	8,136	33,606
RRA NET INCOME (LOSS) BEFORE MINORITY INTERESTS	\$ 9,332	\$ (3,062)	\$ 40,372

(a) Pro forma costs associated with unevaluated properties at December 31, for the years 1982, 1981 and 1980 were \$US34,100,000, \$US25,675,000 and \$US8,163,000 respectively.

(b) Pro forma earnings before tax under full cost accounting for the years ended December 31, 1982, 1981 and 1980 were \$US29,137,000, \$US39,624,000 and \$US50,271,000 respectively.

CONSOLIDATED CHANGES IN PRESENT VALUE OF ESTIMATED FUTURE NET REVENUE FROM PROVED OIL AND GAS RESERVES

For the years ended December 31, 1982, 1981 and 1980

	1982	1981	1980
	(\$US in thousands)		
INCREASES:			
Additions and revisions	\$ 25,230	\$ 40,418	\$ 91,406
Expenditures that reduce estimated future development costs ..	6,918	3,985	6,044
	32,148	44,403	97,450
DECREASES:			
Sales of oil and gas, net after royalty	68,857	64,254	64,057
Less: Production and operating costs	(22,535)	(17,343)	(13,209)
	46,322	46,911	50,848
Sales of reserves-in-place	—	—	28,681
	46,322	46,911	79,529
NET INCREASE (DECREASE)	(14,174)	(2,508)	17,921
BEGINNING OF THE YEAR	149,495	152,003	134,082
END OF THE YEAR	\$135,321	\$149,495	\$152,003

SELECTED FINANCIAL DATA

	1982	1981	1980	1979	1978
	(\$US in thousands)				
FINANCIAL POSITION:					
Working capital.....	\$ 37,734	\$114,197	\$ 24,522	\$ 16,239	\$ 28,980
Total assets.....	788,099	578,685	213,644	178,453	146,488
Capital employed	610,500	474,019	172,051	132,848	129,909
Long-term debt	307,637	238,796	74,630	16,550	23,125
Net equity.....	279,996	219,600	96,239	114,897	81,271
EARNINGS:					
Revenues:					
Net sales	\$527,415	\$312,235	\$172,620	\$121,719	\$ 50,692
Other income	19,161	21,825	5,384	3,074	1,076
Costs and expenses	598,140	365,472	196,250	117,823	56,678
Taxes and royalties	(4,157)	820	563	3,477	59
Earnings (loss) from operations.....	(47,407)	(32,232)	(18,809)	3,493	(4,969)
Extraordinary items	—	—	—	3,070	—
Minority interests	434	247	68	983	1,699
Net earnings (loss).....	(47,841)	(32,479)	(18,877)	5,580	(3,270)
OTHER:					
Capital expenditures	\$ 44,212	\$ 38,271	\$ 43,761	\$ 22,159	\$ 5,314
Acquisition expenditures (net).....	26,000	138,803	—	28,046	84,531

Due to the capital structure, earnings per share information would not be meaningful and therefore has not been provided.

SELECTED QUARTERLY COMBINED FINANCIAL DATA (unaudited)

	Quarters ended			
	March 31	June 30	Sept. 30	Dec. 31
	(\$US in thousands)			
1982				
Net revenue	\$103,726	\$227,924	\$126,641	\$ 88,285
Loss before other items.....	(22,568)	(5,582)	(11,084)	(12,330)
Net loss.....	(22,741)	(6,835)	(16,874)	(1,391)
1981				
Net revenue	\$ 46,153	\$ 50,143	\$149,308	\$ 88,456
Earnings (loss) before other items.....	(8,879)	(10,267)	3,680	(15,946)
Net earnings (loss).....	(8,970)	(10,355)	3,712	(16,866)
1980				
Net revenue	\$ 52,554	\$ 48,913	\$ 17,329	\$ 59,208
Earnings (loss) before other items.....	7,852	(4,370)	(13,621)	(8,107)
Net earnings (loss).....	6,599	(3,776)	(13,732)	(7,968)

SHAREHOLDER PROPOSALS FOR NEXT MEETING

In the event the Reorganization is not completed, HBMS Shareholders who wish to present proposals appropriate for consideration at the next annual meeting must submit such proposals in proper form to HBMS at its registered office not later than March 9, 1984, in order for such proposals to be included in the proxy circular and information statement and form of proxy relating to such meeting.

APPROVAL OF DIRECTORS

The contents of this Circular in substantially this form, and the sending of this Circular to the HBMS Shareholders, have been approved by the Directors of HBMS.

May 2, 1983

C.K. TAYLOR, Q.C.
Senior Vice-President,
Secretary and General Counsel

Commercial Union Tower, Box 433, Toronto-Dominion Centre, Toronto, Ontario M5K 1M2 Telephone (416) 863-7411 Telex: 065-24250

The Board of Directors
Hudson Bay Mining and Smelting Co., Limited
P.O. Box 28
Toronto Dominion Centre
Toronto, Ontario
M5K 1B8

May 2, 1983

Dear Sirs:

We have acted as financial advisor to the independent committee of the Board of Directors of Hudson Bay Mining and Smelting Co., Limited ("HBMS") in the development of the plan of reorganization of HBMS and Inspiration Resources Corporation ("Inspiration Resources"), formerly Plateau Holdings Inc., as described in the Proxy Statement and Information Circular of HBMS dated May 2, 1983 (the "Circular") and in respect of financing considerations relating thereto.

We have been engaged to provide an opinion as to whether the terms of the Arrangement (as defined in the Circular) are fair, from a financial point of view, to the holders, other than Minorco Canada Limited ("Mincan"), of HBMS common shares (the "Minority Shareholders").

The principal financial aspects of the Arrangement are:

- i) Each Minority Shareholder will be entitled to elect to receive 1.10 HBMS special shares or 1.15 Inspiration Resources common shares for each HBMS common share held. Mincan will exchange its HBMS common shares for Inspiration Resources common shares or, in certain events, will exchange and convert its HBMS common shares for a combination of Inspiration Resources common shares and HBMS special shares on a basis as set forth in the Circular. The share exchange ratios represent an incremental equity interest for the Minority Shareholders in the combined HBMS and Inspiration Resources companies. The larger equity interest provided to the Minority Shareholders for the exchange of their HBMS special shares directly for Inspiration Resources common shares is in order to facilitate the distribution of sufficient Inspiration Resources common shares to permit a United States trading market.
- ii) The effective premium provided to Minority Shareholders results in a corresponding reduction in the beneficial interest of Minerals and Resources Corporation Limited ("Minorco"), which indirectly owns all the outstanding voting shares of Mincan, in the combined HBMS and Inspiration Resources companies.
- iii) In addition to other provisions as described in the Circular the holder of each HBMS special share will be entitled to: receive dividends equivalent to dividends declared on one Inspiration Resources common share; direct a trustee to exercise voting rights equal to the voting rights of one Inspiration Resources common share on behalf of the HBMS special shareholder at meetings of Inspiration Resources shareholders; and exchange such HBMS special share at any time on the basis of one Inspiration Resources common share for one HBMS special share, all subject to adjustment in certain events. All HBMS special shares will be automatically exchanged for Inspiration Resources common shares on such basis on the occurrence of certain events and, in any event, at the end of ten years or such longer period as may be permitted by HBMS.

Further particulars of the Arrangement are set forth in the Circular.

In arriving at our opinion, we have, among other things, reviewed market prices and trading volumes for the HBMS common shares, the financial statements and other information and data set forth in the Circular and conducted such financial analyses and investigations as we considered appropriate in the circumstances. We have also participated in examinations and discussions of the Arrangement with management of HBMS and of Inspiration Resources and we have relied upon the business, financial and other information, including financial forecasts, and data supplied to us by or on behalf of HBMS and Inspiration Resources. We have not independently verified the accuracy or completeness of all items included in such information and data.

Based on the foregoing, it is our opinion that the terms of the Arrangement are fair, from a financial point of view, to the Minority Shareholders.

Yours truly,

McLEOD YOUNG WEIR LIMITED



First Boston

The Board of Directors
Hudson Bay Mining and Smelting Co., Limited
P.O. Box 28
Toronto-Dominion Centre
Toronto, Ontario M5K 1B8
Canada

May 2, 1983

Dear Sirs:

You have asked us to advise you on the fairness to the shareholders of Hudson Bay Mining and Smelting Co., Limited ("HBMS"), other than Minorco Canada Limited ("Mincan"), a subsidiary of Minerals and Resources Corporation Limited ("Minorco"), of the financial terms of the proposed business combination (the "Arrangement") pursuant to which HBMS will become a wholly-owned subsidiary of Inspiration Resources Corporation ("Inspiration Resources"). As a result of the Arrangement, (i) each HBMS shareholder other than Mincan will become, at such shareholder's option, the holder of either (a) HBMS special shares on the basis of 1.10 HBMS special shares for each HBMS common share held or (b) Inspiration Resources common shares on the basis of 1.15 Inspiration Resources common shares for each HBMS common share held, and (ii) Mincan will exchange its HBMS common shares for Inspiration Resources Common Shares (or, in certain events, Mincan will exchange and convert its HBMS common shares for a combination of Inspiration Resources common shares and HBMS special shares). Minorco will directly or indirectly hold such number of Inspiration Resources common shares having one vote per share and other Inspiration Resources equity securities having 1/10 vote per share so that its voting interest in Inspiration Resources will be less than 50%. The terms of the proposed Arrangement, including the securities to be issued to HBMS shareholders, are set forth in the Proxy Statement and Information Circular for HBMS dated May 2, 1983 (the "Proxy Statement"), issued in connection with the annual and special meeting of its shareholders scheduled to be held on June 8, 1983.

In arriving at our opinion, we have reviewed certain publicly available business and financial information relating to HBMS, including the Proxy Statement. We have also reviewed certain other information and operational data, including financial forecasts, provided to us by the managements of HBMS and Inspiration Resources. We have met with the managements of HBMS and Inspiration Resources to discuss the foregoing information with them. In connection with our review, we have not independently verified any of the foregoing information and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts, we have assumed that they represented the best estimates then available of the future financial performances of HBMS and Inspiration Resources. In addition, we have not made an independent evaluation of the assets of HBMS or Inspiration Resources.

We have also considered, among other matters we deemed relevant, certain stock market data relating to HBMS, and the financial consequences of the Arrangement to HBMS and its shareholders.

Based on our analysis of the foregoing, it is our opinion that the proposed terms of the Arrangement are fair from a financial point of view to the shareholders of HBMS (other than Mincan).

Very truly yours,
THE FIRST BOSTON CORPORATION

APPENDIX 2

TEXT OF SPECIAL RESOLUTION APPROVING ARRANGEMENT AGREEMENT UNDER SECTION 185.1 OF CANADA BUSINESS CORPORATIONS ACT

“RESOLVED THAT:

- (1) the Arrangement Agreement among Hudson Bay Mining and Smelting Co., Limited (“HBMS”), Inspiration Resources Corporation (“Inspiration Resources”) and Minerals and Resources Corporation Limited, including the Arrangement attached thereto as Schedule A (the “Arrangement”) under Section 185.1 of the Canada Business Corporations Act, pursuant to which, among other things,
 - (a) a class of HBMS Special Shares will be created,
 - (b) each shareholder of HBMS, other than Minorco Canada Limited (“Mincan”), will either convert all of his HBMS Common Shares into HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share converted or exchange all of his HBMS Common Shares for Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged, and
 - (c) Mincan will exchange all of its HBMS Common Shares for Inspiration Resources Common Shares or, in certain events, will exchange and convert all of its HBMS Common Shares for a combination of Inspiration Resources Common Shares and HBMS Special Shares,be and the same is hereby ratified, confirmed and approved, and
- (2) the proper officers of HBMS be and they are hereby authorized to take all such steps as they deem necessary or desirable in connection with the foregoing.”

APPENDIX 3
ARRANGEMENT AGREEMENT

This Arrangement Agreement dated as of May 14, 1983

AMONG:

HUDSON BAY MINING AND SMELTING CO., LIMITED, a corporation organized and existing under the laws of Canada, having its registered office in the City of Toronto, Ontario;
(hereinafter called "HBMS")

OF THE FIRST PART

—and—

INSPIRATION RESOURCES CORPORATION, a corporation organized and existing under the laws of the State of Maryland, having its registered office in the City of Baltimore, Maryland;
(hereinafter called "Inspiration Resources")

OF THE SECOND PART

—and—

MINERALS AND RESOURCES CORPORATION LIMITED, a corporation organized and existing under the laws of Bermuda, having its registered office in the City of Hamilton, Bermuda;
(hereinafter called "Minorco")

OF THE THIRD PART

NOW THEREFORE this agreement witnesseth that in consideration of the premises and the mutual covenants herein contained the parties hereto agree as follows:

ARTICLE I
INTERPRETATION

Section 1.01 Definitions

In this agreement, unless there is something in the subject matter or context inconsistent therewith:

- (a) "Act" means the Canada Business Corporations Act, S.C. 1974-75-76, c.33, as amended;
- (b) "Affiliate" means, in relation to one corporation, person, trust, firm, partnership or other entity (any such entity being called a "Person") another Person if either of them (i) owns directly or indirectly more than 20% of the shares of the other Person or exercises control or direction over more than 20% of the votes attached to the shares of the other Person or (ii) directly or indirectly, through the ownership of voting securities, by contract, or otherwise, possesses the power to direct or cause the direction of the management and policies of the other Person. If two Persons are affiliated with another Person at the same time, each of the two Persons shall be deemed to be an affiliate of the other.
- (c) "Arrangement" means the plan of arrangement of HBMS substantially on the terms and conditions set forth in Schedule A hereto;
- (d) "Court" means the Supreme Court of Ontario;
- (e) "Effective Date" means the date shown in the certificate of amendment to be issued to HBMS in respect of the Arrangement;
- (f) "HBMS" means Hudson Bay Mining and Smelting Co., Limited, a corporation organized and existing under the laws of Canada;
- (g) "HBMS Common Shares" mean the class of common shares of HBMS;
- (h) "HBMS Public Shareholders" mean the holders of HBMS Common Shares other than Mincan;
- (i) "HBMS Special Shares" mean the new class of special, exchangeable, non-voting shares of HBMS to be created pursuant to the Arrangement, the rights, privileges, restrictions and conditions attaching to such HBMS Special Shares to be substantially as set forth in Exhibit I to the Arrangement;
- (j) "HBMS Special Meeting" means the Annual and Special Meeting of shareholders of HBMS to be held on June 8, 1983;

- (k) “Inspiration Resources” means Inspiration Resources Corporation, a corporation organized and existing under the laws of the State of Maryland;
- (l) “Inspiration Resources Agency Agreement” means the Inspiration Resources Exchange Agency and Trust Agreement to be entered into by HBMS, Inspiration Resources and the Trustee on or before the Effective Date to be substantially on the terms and conditions set forth in Schedule C hereto;
- (m) “Inspiration Resources Class A Shares” mean the shares without par value of Inspiration Resources to be held by Minorco and having voting rights of 1/10 of one vote per share;
- (n) “Inspiration Resources Common Shares” mean the shares without par value of Inspiration Resources having voting rights of one vote per share;
- (o) “Inspiration Resources Trust Shares” mean the shares of Inspiration Resources having a par value of \$US0.0001 per share and having voting rights of one vote per share;
- (p) “Interim Order” means the order of the Court dated April 29, 1983, which order provides for the consideration of the Arrangement at the HBMS Special Meeting;
- (q) “Mincan” means Minorco Canada Limited, a corporation organized and existing under the laws of the Province of Ontario and an indirect subsidiary of Minorco;
- (r) “Minorco” means Minerals and Resources Corporation Limited, a corporation organized and existing under the laws of Bermuda;
- (s) “Order” means the final order, when granted, of the Court approving the Arrangement;
- (t) “Proxy Statement and Information Circular” means the Proxy Statement and Information Circular of HBMS to be sent to shareholders of HBMS in connection with the HBMS Special Meeting;
- (u) “subsidiary” means in respect of a corporation a subsidiary corporation as defined in the Act; and
- (v) “Trustee” means Montreal Trust Company, a corporation organized and existing under the laws of the Province of Quebec.

Section 1.02 Currency

All sums of money which are referred to in this Arrangement are expressed in lawful money of Canada unless otherwise specified.

Section 1.03 Interpretation Not Affected by Headings, etc.

The division of this Agreement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this agreement. The terms “this Agreement”, “hereof”, “herein” and “hereunder” and similar expressions refer to this agreement and the schedules hereto and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

Section 1.04 Number, etc.

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include all genders; and words importing persons shall include firms and corporations and vice versa.

Section 1.05 Date for any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

Section 1.06 Entire Agreement

This agreement, together with the agreements and other documents herein and therein referred to, constitute the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of or between the parties with respect to the subject matter hereof.

ARTICLE TWO

REPRESENTATIONS AND WARRANTIES

Section 2.01 Representations and Warranties of HBMS

HBMS represents and warrants (which representations and warranties are given by HBMS on its behalf and on behalf of its subsidiaries and Trend International Limited) to and in favour of each of Inspiration Resources and Minorco as follows and acknowledges that each of Inspiration Resources and Minorco is relying upon such representations and warranties:

- (a) HBMS is duly organized and validly existing and has the corporate power and authority to own or lease its property and assets and to carry on its business as now conducted by it, and HBMS has the corporate power and authority to enter into this agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder;
- (b) the authorized capital of HBMS consists of an unlimited number of HBMS Common Shares of which 10,231,044 are issued and outstanding as fully paid and non-assessable;
- (c) no individual, firm, corporation or other person holds any securities convertible into HBMS Common Shares or has any agreement, warrant or option or any right capable of becoming an agreement, warrant or option for the purchase of any unissued HBMS Common Shares, except for outstanding options on 44,000 HBMS Common Shares held by employees of HBMS and its subsidiaries;
- (d) the execution and delivery of this agreement and the completion of the transactions contemplated herein:
 - (i) do not and will not result in the breach of, or violate any term or provision of, the articles or by-laws of HBMS; or
 - (ii) will not as of the Effective Date conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, licence, permit or authority to which HBMS is a party or by which it is bound and which is material to HBMS or to which any material property of HBMS is subject or result in the creation of any lien, charge or encumbrance upon any of the material assets of HBMS under any such agreement or instrument, or give to others any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, licence, permit or authority; or
 - (iii) do not or will not violate any provision of law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable to, and known to (after due enquiry), HBMS, the breach of which would have a material adverse affect on HBMS;
- (e) there are no actions, suits, proceedings or investigations commenced, or to the knowledge of HBMS (after due enquiry) contemplated or threatened, against or affecting HBMS at law or in equity before or by any government department, commission, board, bureau, court, agency, arbitrator, or instrumentality, domestic or foreign, of any kind nor, to the best of the knowledge of HBMS senior officers (after due enquiry), are there any existing facts or conditions which may reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations, other than in connection with the exercise of rights of dissent referred to in Section 5.01 of the Arrangement, which in any case would prevent or hinder the consummation of the transactions contemplated by this agreement or, except as disclosed in the consolidated financial statements of HBMS and the notes thereto for the fiscal year ended December 31, 1982 as set forth in the Proxy Statement and Information Circular, which can reasonably be expected to have a material adverse effect on the business, operations, properties, assets or affairs, financial or otherwise, of HBMS and its subsidiaries taken as a whole;
- (f) HBMS indirectly holds 12,128 Inspiration Resources common shares, 9,412 Inspiration Resources non-voting common shares and one Inspiration Resources voting non-cumulative preferred share, all of which shares are owned free and clear of all liens, charges, security interests and encumbrances and there are no outstanding agreements, warrants or options or any rights capable of becoming an agreement for the purchase of any such shares;
- (g) the execution and delivery of this agreement and the completion of the transactions contemplated herein have been duly approved by the Board of Directors of HBMS, and this agreement constitutes a valid and binding obligation of HBMS enforceable against it in accordance with its terms; and
- (h) to the best of the knowledge of HBMS (after due enquiry), the information set forth in the Proxy Statement and Information Circular (other than as it relates solely to Inspiration Resources and Minorco)

is true, correct and complete in all material respects and does not contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they are made.

Section 2.02 Representations and Warranties of Inspiration Resources

Inspiration Resources represents and warrants (which representations and warranties are given by Inspiration Resources in its own behalf and on behalf of its subsidiaries), to and in favour of each of HBMS and Minorco as follows and acknowledges that each of HBMS and Minorco is relying upon such representations and warranties:

- (a) Inspiration Resources is duly organized and validly existing and has the corporate power and authority to own or lease its property and assets and to carry on its business as now conducted by it, and Inspiration Resources has the corporate power and authority to enter into this agreement and perform its obligations hereunder;
- (b) the authorized capital of Inspiration Resources consists of 100,000 Inspiration Resources common shares, 100,000 Inspiration Resources non-voting common shares and two Inspiration Resources voting non-cumulative preferred shares of which 24,256 Inspiration Resources common shares, 18,824 Inspiration Resources non-voting common shares and two Inspiration Resources voting non-cumulative preferred shares are issued and outstanding as fully paid and non-assessable;
- (c) no individual, firm, corporation or other person holds any securities convertible into Inspiration Resources common shares, Inspiration Resources non-voting common shares or Inspiration Resources voting non-cumulative preferred shares or has any agreement, warrant or option or any right capable of becoming an agreement, warrant or option for the purchase of any unissued Inspiration Resources common shares, Inspiration Resources non-voting common shares or Inspiration Resources voting non-cumulative preferred shares, except for agreements with respect to outstanding options on 44,000 HBMS Common Shares held by employees of HBMS and its subsidiaries;
- (d) the execution and delivery of this agreement and the completion of the transactions contemplated herein:
 - (i) do not and will not result in the breach of, or violate any term or provision of, the charter or by-laws of Inspiration Resources; or
 - (ii) will not as of the Effective Date conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, licence, permit or authority to which Inspiration Resources is a party or by which it is bound and which is material to Inspiration Resources or to which any material property of Inspiration Resources is subject or result in the creation of any lien, charge or encumbrance upon any of the material assets of Inspiration Resources under any such agreement or instrument, or give to others any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, licence, permit or authority; or
 - (iii) do not and will not violate any provision of law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable to, and known to (after due enquiry) Inspiration Resources, the breach of which would have a material adverse affect on Inspiration Resources;
- (e) there are no actions, suits, proceedings or investigations commenced, or to the knowledge of Inspiration Resources (after due enquiry) contemplated or threatened, against or affecting Inspiration Resources at law or in equity before or by any government department, commission, board, bureau, court, agency, arbitrator, or instrumentality, domestic or foreign, of any kind nor, to the best of the knowledge of Inspiration Resources' senior officers (after due enquiry), are there any existing facts or conditions which may reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations which in any case would prevent or hinder the consummation of the transactions contemplated by this agreement or which can reasonably be expected to have a material adverse affect on the business, operations, properties, assets or affairs, financial or otherwise, of Inspiration Resources and its subsidiaries taken as a whole;
- (f) the execution and delivery of this agreement and the completion of the transactions contemplated herein have been duly approved by the Board of Directors of Inspiration Resources, and this agreement constitutes a valid and binding obligation of Inspiration Resources enforceable against it in accordance with its terms; and

- (g) to the best of the knowledge of Inspiration Resources (after due enquiry), the information set forth in the Proxy Statement and Information Circular (other than as it relates solely to HBMS and Minorco) is true, correct and complete in all material respects and does not contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they are made.

Section 2.03 Representations and Warranties of Minorco

Minorco represents and warrants (which representations and warranties are given by Minorco in its own behalf and on behalf of its subsidiary Mincan) to and in favour of each of HBMS and Inspiration Resources as follows and acknowledges that each of HBMS and Inspiration Resources is relying upon such representations and warranties:

- (a) each of Minorco and Mincan is duly organized and validly existing and has the corporate power and authority to own or lease its property and assets and to carry on its business as now conducted by it, and Minorco has the corporate power and authority to enter into this agreement and perform its obligations hereunder;
- (b) Minorco is the indirect holder of all the issued and outstanding voting securities of Mincan;
- (c) Mincan is the holder of 4,487,540 HBMS Common Shares which shares are owned free and clear of all liens, charges, security interests and encumbrances, and there are no outstanding agreements, warrants, options or any rights capable of becoming an agreement for the purchase of any such HBMS Common Shares;
- (d) the execution and delivery of this agreement and the completion of the transactions contemplated herein do not and will not:
 - (i) result in the breach of, or violate any term or provision of, the incorporating articles and by-laws of Minorco; or
 - (ii) conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, licence, permit or authority to which Minorco is a party or by which it is bound and which is material to Minorco or to which any material property of Minorco is subject or result in the creation of any lien, charge or encumbrance upon any of the material assets of Minorco under any such agreement or instrument, or give to others any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, licence, permit or authority; or
 - (iii) violate any provision of law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable to, and known to (after due enquiry) Minorco, the breach of which would have a material adverse affect on Minorco;
- (e) there are no actions, suits, proceedings or investigations commenced, or to the knowledge of Minorco (after due enquiry) contemplated or threatened, against or affecting Minorco at law or in equity before or by any government department, commission, board, bureau, court, agency, arbitrator, or instrumentality, domestic or foreign, of any kind nor, to the best of the knowledge of Minorco's senior officers (after due enquiry), are there any existing facts or conditions which may reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations which in any case would prevent or hinder the consummation of the transactions contemplated by this agreement or which can reasonably be expected to have a material adverse affect on the business, operations, properties, assets or affairs, financial or otherwise, of Minorco and its subsidiaries taken as a whole;
- (f) the execution and delivery of this agreement and the completion of the transactions contemplated herein have been duly approved by the Board of Directors of Minorco, and this agreement constitutes a valid and binding obligation of Minorco enforceable against it in accordance with its terms; and
- (g) to the best of the knowledge of Minorco (after due enquiry), the information set forth in the Proxy Statement and Information Circular (other than as it relates solely to HBMS and Inspiration Resources) relating to Minorco and Mincan contained therein is true, correct and complete in all material respects and does not contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they are made.

Section 2.04 Acknowledgement Regarding Representations and Warranties

HBMS, Inspiration Resources and Minorco acknowledge that:

- (a) all of the representations and warranties set forth in Sections 2.01, 2.02 and 2.03 of this agreement are subject to the transactions described in this agreement and in the Proxy Statement and Information Circular; and
- (b) the only remedy for a breach of any representation and warranty of HBMS (or its subsidiaries or Trend International Limited) contained in Section 2.01 of this agreement, of Inspiration Resources (or its subsidiaries) contained in Section 2.02 of this agreement or of Minorco (or its subsidiary Mincan) contained in Section 2.03 of this agreement shall be the right of any party to which such representation and warranty is addressed to terminate this agreement, and without limiting the generality of the foregoing, any such breach by any one of the parties shall not entitle the other parties to damages.

ARTICLE THREE COVENANTS

Section 3.01 Covenants of HBMS

HBMS covenants and agrees with each of Inspiration Resources and Minorco that:

- (a) until the Effective Date, HBMS will carry on its business in the ordinary course, except as otherwise contemplated in this agreement;
- (b) until the Effective Date, HBMS will not, and will not permit any subsidiary to, merge into or with, or amalgamate or consolidate with, or enter into any other corporate reorganization with, any other corporation or person or perform any act or enter into any transaction or negotiation which interferes or is inconsistent with the completion of the transactions contemplated hereby, other than as contemplated in this agreement;
- (c) HBMS will use its best efforts to qualify the HBMS Special Shares for trading on The Toronto Stock Exchange as of the Effective Date;
- (d) HBMS will do all such other acts and things as may be required or reasonably desirable in order to give effect to the Arrangement and the transactions contemplated by this agreement, including without limitation the execution and delivery of the Inspiration Resources Agency Agreement on or before the Effective Date; and
- (e) in the event this agreement is terminated, HBMS will, on or prior to December 30, 1983, convert into Inspiration Resources share capital its loan to Inspiration Resources in the principal amount of \$US30,000,000.

Section 3.02 Covenants of Inspiration Resources

Inspiration Resources covenants and agrees with each of HBMS and Minorco that:

- (a) until the Effective Date, Inspiration Resources will carry on its business in the ordinary course, except as otherwise contemplated in this agreement;
- (b) until the Effective Date, Inspiration Resources will not, and will not permit any subsidiary to, merge into or with, or amalgamate or consolidate with, or enter into any other corporate reorganization with, any other corporation or person or perform any act or enter into any transaction or negotiation which interferes or is inconsistent with the completion of the transactions contemplated hereby, other than as contemplated in this agreement;
- (c) Inspiration Resources will use its best efforts to qualify the Inspiration Resources Common Shares for trading on the New York Stock Exchange as of the Effective Date;
- (d) on or before the Effective Date, Inspiration Resources shall guarantee the payment obligations of HBMS under the Trust Indenture dated as of June 15, 1971 between HBMS and The Royal Trust Company relating to the 9% Debentures due June 15, 1991 and under the Trust Indenture dated as of December 15, 1975 between HBMS and Morgan Guaranty Trust Company of New York relating to the 10 ½% Sinking Fund Debentures due December 15, 1995 upon terms and conditions reasonably acceptable to the trustee under each such Indenture;
- (e) upon the completion of the Arrangement on the Effective Date, any Inspiration Resources Common Shares that are then held by HBMS shall be purchased by Inspiration Resources forthwith at their fair market value to be determined by the Board of Directors of HBMS, and failing such determination for a period of 30 days, by the auditors of HBMS, and any such determination shall be conclusive, final and binding;

- (f) on and after the Effective Date and until such time as no HBMS Special Shares are held by HBMS Public Shareholders, Inspiration Resources shall not vote or permit to be voted any HBMS Special Shares held by it, directly or indirectly;
- (g) on or before the Effective Date, Inspiration Resources shall have filed for record with the Maryland State Department of Assessments and Taxation Articles of Amendment and Restatement of Inspiration Resources effecting the recapitalization of Inspiration Resources and creating the Inspiration Resources Common Shares, Inspiration Resources Class A Shares and Inspiration Resources Trust Shares, all in the manner set forth in the Proxy Statement and Information Circular;
- (h) on or before the Effective Date or as soon as possible thereafter, Inspiration Resources shall have filed with the United States Securities and Exchange Commission a Registration Statement Form on S-1 under the United States Securities Act of 1933 with respect to the Inspiration Resources Common Shares to be issued upon the exchange of the HBMS Special Shares to be issued in the Arrangement and shall use its best efforts to have such Registration Statement declared effective on or before the Effective Date or as soon as possible thereafter;
- (i) on or before the earlier of the date of the final receipt issued by the Ontario Securities Commission for a prospectus of HBMS relating to a public issue of HBMS Special Shares and the date which is 75 days after the Effective Date, Inspiration Resources shall have filed all documents necessary to become a reporting issuer under the Securities Act (Ontario) and shall use its best efforts to maintain such status until such time as there are no issued and outstanding HBMS Special Shares held by HBMS Public Shareholders; and
- (j) Inspiration Resources will do all such other acts and things as may be required or reasonably desirable in order to give effect to the Arrangement and the transactions contemplated by this agreement, including without limitation the execution and delivery of the Inspiration Resources Agency Agreement on or before the Effective Date.

Section 3.03 Covenants of Minorco

Minorco covenants and agrees with each of HBMS and Inspiration Resources on its own behalf and on behalf of Mincan that:

- (a) in the event this agreement is terminated, Minorco will, on or prior to December 30, 1983, convert into Inspiration Resources share capital its loan to Inspiration Resources in the principal amount of \$US30,000,000;
- (b) at or prior to 9 p.m. (Toronto time) on the day immediately preceding the Effective Date, Minorco shall cause Mincan to determine the number of Inspiration Resources Common Shares and HBMS Special Shares referred to in, and calculated in accordance with, Schedule B;
- (c) forthwith upon the completion of the Arrangement, Minorco shall contribute to Inspiration Resources a number of Inspiration Resources Common Shares equal to 15% of the number of Inspiration Resources Common Shares received by HBMS Public Shareholders from Inspiration Resources in exchange for HBMS Common Shares under the Arrangement;
- (d) Minorco shall take no action which shall change or cause the change of the voting rights per share of the Inspiration Resources Common Shares or the Inspiration Resources Trust Shares without identically changing or causing the identical change to the voting rights per share of the Inspiration Resources Trust Shares or the Inspiration Resources Common Shares, respectively;
- (e) Minorco shall not sell or otherwise dispose of Inspiration Resources Class A Shares held by Minorco, directly or indirectly, other than to Affiliates of Minorco (provided that Inspiration Resources shall be deemed not to be an affiliate of Minorco for purposes of this subsection 3.03(e)) or other than through conversion of any Inspiration Resources Class A Shares into Inspiration Resources Common Shares; and
- (f) Minorco and Mincan will do all such acts and things as may be required or reasonably desirable in order to give effect to the Arrangement and the transactions contemplated by this agreement including, without limitation, the recapitalization of Inspiration Resources in the manner set forth in the Proxy Statement and Information Circular.

ARTICLE IV CONDITIONS PRECEDENT

Section 4.01 Mutual Conditions Precedent

The respective obligations of the parties hereto to complete the transactions contemplated by this Agreement shall be subject to satisfaction, on or before the Effective Date, of the following conditions, any of which (except for the approvals set forth in paragraphs (a), (b), (c), (f) and (g) below) may be waived by any party hereto without prejudice to such party's right to rely on any other of them:

- (a) this agreement, with or without amendment, shall have been approved at the HBMS Special Meeting in accordance with the Interim Order;
- (b) Articles of Amendment and Restatement of Inspiration Resources effecting the recapitalization of Inspiration Resources and creating the Inspiration Resources Common Shares, Inspiration Resources Class A Shares and Inspiration Resources Trust Shares in the manner set forth in the Proxy Statement and Information Circular shall have been filed for record with the Maryland State Department of Assessments and Taxation;
- (c) the Order approving the Arrangement shall have been obtained and the certificate of amendment shall have been issued to HBMS pursuant to Section 185.1 of the Act;
- (d) any other regulatory and judicial approvals and orders required in the opinion of counsel for HBMS and Inspiration Resources for the completion of the transactions provided for in this agreement shall have been obtained;
- (e) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this agreement and the Arrangement;
- (f) the Registration Statement on Form S-1 under the United States Securities Act of 1933 with respect to the Inspiration Resources Common Shares to be issued upon the exchange of the HBMS Special Shares to be issued in the Arrangement shall be effective; and
- (g) the parties shall have effected certain transactions with the result that on the Effective Date (i) Inspiration Resources shall own all the issued and outstanding common shares of Trend International Limited, and (ii) HBMS shall own directly 50% of the issued and outstanding Inspiration Resources Common Shares.

Section 4.02 Conditions to Obligations of HBMS

The obligation of HBMS to complete the transactions contemplated by this agreement is subject to the satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by HBMS without prejudice to its rights to rely on any other of them:

- (a) each of the covenants of Inspiration Resources and Minorco to be performed on or before the Effective Date pursuant to the terms of this agreement shall have been duly performed by each of them;
- (b) Inspiration Resources shall have furnished HBMS with certified copies of the resolution or resolutions duly passed by the Board of Directors of Inspiration Resources approving the entering into of this agreement and the completion of the transactions contemplated herein, including resolutions conditionally allotting the aggregate number of Inspiration Resources Common Shares to be issued to holders of HBMS Common Shares in accordance with the terms of the Arrangement;
- (c) Minorco shall have furnished HBMS with certified copies of the resolution or resolutions duly passed by the Board of Directors of Minorco approving the entering into of this agreement and the completion of the transactions contemplated herein;
- (d) except as affected by the transactions contemplated by this agreement and the Proxy Statement and Information Circular, (i) the representations and warranties of each of Inspiration Resources and Minorco as set forth in Sections 2.02 and 2.03 shall be true in all material respects as at the Effective Date with the same effect as though such representations and warranties had been made at, and as of, such time, and (ii) HBMS shall have received a certificate, dated the Effective Date, of a senior officer of each of Inspiration Resources and Minorco, to the best of his knowledge and belief, having made reasonable enquiry, to that effect and to the effect that the conditions set forth in Sections 4.01(d) and (e) have been satisfied or waived by HBMS, and HBMS shall have no knowledge to the contrary;
- (e) the issue of the HBMS Special Shares for the purposes of the Arrangement shall be exempt from registration and prospectus requirements:
 - (i) under applicable securities legislation or regulations thereunder in each of the Provinces and Territories of Canada by reason of the provisions of such legislation or regulations or the existence of a suitable exemption under the terms of such legislation or an order of an appropriate securities commission or other regulatory or judicial authority having jurisdiction; and
 - (ii) under the United States Securities Act of 1933;
- (f) the aggregate number of Inspiration Resources Common Shares to be issued for the purpose of the Arrangement shall have been conditionally allotted and, when issued and delivered under the Arrangement, shall be issued as fully paid and non-assessable shares; and

- (g) holders of no more than 511,552 HBMS Common Shares (5% of the outstanding HBMS Common Shares) shall have exercised their rights of dissent to the Arrangement in accordance with the terms of the Interim Order in the manner provided for in the Act.

Section 4.03 Conditions to Obligations of Inspiration Resources

The obligation of Inspiration Resources to complete the transactions contemplated by this agreement is subject to the satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by Inspiration Resources without prejudice to its rights to rely on any other of them:

- (a) each of the covenants of HBMS and Minorco to be performed on or before the Effective Date pursuant to the terms of this agreement shall have been duly performed by each of them;
- (b) HBMS shall have furnished Inspiration Resources with:
 - (i) certified copies of the resolution or resolutions duly passed by the Board of Directors of HBMS approving the entering into of this agreement and the completion of the transactions contemplated herein and directing the submission thereof for approval at the HBMS Special Meeting; and
 - (ii) certified copies of the resolution or resolutions duly passed at the HBMS Special Meeting approving this agreement and the Arrangement;
- (c) Minorco shall have furnished Inspiration Resources with certified copies of the resolution or resolutions duly passed by the Board of Directors of Minorco approving the entering into of this agreement and the completion of the transactions contemplated herein;
- (d) except as affected by transactions contemplated by this agreement and the Proxy Statement and Information Circular, (i) the representations and warranties of each of HBMS and Minorco, as set forth in Sections 2.01 and 2.03, shall be true in all material respects as at the Effective Date with the same effect as though such representations and warranties had been made at and as of such time, and (ii) Inspiration Resources shall have received a certificate, dated the Effective Date, of a senior officer of each of HBMS and Minorco, to the best of his knowledge and belief, having made reasonable enquiry, to that effect and to the effect that the conditions set forth in Sections 4.01(d) and (e) have been satisfied or such conditions have been waived by Inspiration Resources, and Inspiration Resources shall have no knowledge to the contrary; and
- (e) the issue of the Inspiration Resources Common Shares for the purpose of the Arrangement shall be exempt from registration and prospectus requirements:
 - (i) under applicable securities legislation or regulations thereunder in each of the Provinces and Territories of Canada by reason of the provisions of such legislation or regulations or the existence of a suitable exemption under the terms of such legislation or an order of an appropriate securities commission or other regulatory or judicial authority having jurisdiction; and
 - (ii) under the United States Securities Act of 1933; and
- (f) all necessary corporate action shall have been taken so that the aggregate number of HBMS Special Shares into which the issued and outstanding HBMS Common Shares are converted pursuant to the Arrangement shall, upon the Arrangement becoming effective, be issued as fully paid and non-assessable shares.

ARTICLE FIVE NOTICES

Section 5.01

All notices which may or are required to be given pursuant to any provision of this agreement shall be given or made in writing and shall be served personally, and in the case of HBMS addressed to:

Hudson Bay Mining and Smelting Co., Limited
28th Floor
Toronto-Dominion Bank Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1B8
Attention: President

and in the case of Inspiration Resources addressed to:

Inspiration Resources Corporation
645 Fifth Avenue
Suite 700
New York, New York 10022
Attention: President

and in the case of Minorco addressed to:

Minerals and Resources Corporation
Limited
Belvedere Building, Pitts Bay Road
Hamilton 5-33, Bermuda
Attention: Secretary

or such other address as the party may, from time to time, advise to the other parties hereto by notice in writing. The date of receipt of any such notice shall be deemed to be the date of delivery.

ARTICLE SIX

AMENDMENT AND TERMINATION OF AGREEMENT

Section 6.01 Amendment

This agreement may, at any time and from time to time before or after the holding of the HBMS Special Meeting but no later than the Effective Date, be amended by written agreement of the parties hereto without further notice to or authorization on the part of their respective shareholders. Any such amendment may, without limitation,

- (a) change the time for performance of any of the obligations or acts of the parties hereto;
- (b) waive any inaccuracies or modify any representation contained herein or in any documents delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the parties hereto; provided that, notwithstanding the foregoing, the number of HBMS Special Shares and Inspiration Resources Common Shares which the holders of HBMS Common Shares shall have the right to receive on the Arrangement may not be reduced without the approval of the shareholders of HBMS given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court.

Section 6.02 Termination

This agreement may, at any time before or after the holding of the HBMS Special Meeting but no later than the Effective Date, be terminated by the unanimous agreement of the parties hereto without further action on the part of their respective shareholders; provided, however, that the covenant of HBMS in subsection 3.01(e) of this agreement and the covenant of Minorco in subsection 3.03(a) of this agreement shall survive any such termination. This agreement shall also terminate on March 31, 1984 unless on or before that date the Director under the Act shall have issued a Certificate of Amendment to HBMS pursuant to the Act concerning the Arrangement.

ARTICLE SEVEN

GENERAL

Section 7.01 Binding Effect

This agreement and the Arrangement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns and to the holders from time to time of the HBMS Common Shares.

Section 7.02 Assignment

No party may assign its rights or obligations under this agreement or the Arrangement without the prior written consent of the other parties hereto.

Section 7.03 Enforceability

All representations and warranties herein as to enforceability in accordance with the terms of any covenant, agreement or document shall be qualified as to applicable bankruptcy and other laws affecting the enforcement of creditors' rights generally and to the effect that equitable remedies lie at the discretion of the court.

Section 7.04 Governing Law

This agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

Section 7.05 Counterparts

This agreement may be executed in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties have executed this agreement as of the date first above written.

HUDSON BAY MINING AND
SMELTING CO., LIMITED

"J.B. Howkins"
Executive Vice-President

"C.K. Taylor"
Senior Vice-President, Secretary and
General Counsel

c.s.

INSPIRATION RESOURCES CORPORATION

"A.M. Doull"
Executive Vice-President

"C.K. Taylor"
Vice-President and Secretary

c.s.

MINERALS AND RESOURCES
CORPORATION LIMITED

"A.M. Doull"
Vice-President, Finance

"D.E. Fisher"
Secretary-Treasurer

c.s.

**SCHEDULE A TO THE ARRANGEMENT AGREEMENT
DATED AS OF MAY 14, 1983 AMONG HBMS,
INSPIRATION RESOURCES AND MINORCO

PLAN OF ARRANGEMENT UNDER SECTION 185.1
OF THE CANADA BUSINESS CORPORATIONS ACT**

ARTICLE I

INTERPRETATION

1.01 Definitions—In this Arrangement, unless there is something in the subject matter or context inconsistent therewith:

- (a) “Act” means the Canada Business Corporations Act, S.C. 1974-75-76, c.33, as amended;
- (b) “Arrangement” means the plan of arrangement set forth herein;
- (c) “Arrangement Agreement” means the agreement dated as of May 14, 1983 among HBMS, Inspiration Resources and Minorco to which this Arrangement is annexed as Schedule A;
- (d) “Depository” means in Canada, Montreal Trust Company through its offices in Montreal, Toronto, Winnipeg, Calgary and Vancouver and in the United States or elsewhere, Morgan Guaranty Trust Company of New York through its office in New York, New York;
- (e) “Effective Date” means the date shown in the certificate of amendment to be issued to HBMS pursuant to the Act concerning the Arrangement;
- (f) “HBMS” means Hudson Bay Mining and Smelting Co., Limited, a corporation organized and existing under the laws of Canada;
- (g) “HBMS Common Shares” mean the issued and outstanding common shares of HBMS;
- (h) “HBMS Canadian Public Shareholders” mean Holders, other than Mincan and Private Corporations, whose addresses of record are Canadian;
- (i) “HBMS Non-Canadian Public Shareholders” mean Holders whose addresses of record are not Canadian;
- (j) “HBMS Special Shares” mean the special, exchangeable, non-voting shares of HBMS created pursuant to the Arrangement, the rights, privileges, restrictions and conditions attaching to such HBMS Special Shares being set forth in Exhibit I hereto;
- (k) “Holder” means a registered holder of HBMS Common Shares on the Effective Date;
- (l) “Inspiration Resources” means Inspiration Resources Corporation, a corporation organized and existing under the laws of the State of Maryland;
- (m) “Inspiration Resources Common Shares” mean the shares without par value of Inspiration Resources having voting rights of one vote per share;
- (n) “Mincan” means Minorco Canada Limited, a corporation organized and existing under the laws of the Province of Ontario and an indirect subsidiary of Minorco;
- (o) “Minorco” means Minerals and Resources Corporation Limited, a corporation organized and existing under the laws of Bermuda;
- (p) “Private Corporation” means a Holder which has advised HBMS prior to the Effective Date in the Transmittal Letter that it is a private corporation as defined in the Income Tax Act (Canada); and
- (q) “Transmittal Letter” means the transmittal and election form forwarded to Holders in connection with the Arrangement.

1.02 Currency

All sums of money which are referred to in this Arrangement are expressed in lawful money of Canada unless otherwise specified.

1.03 Interpretation Not Affected by Headings, etc.

The division of this Arrangement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Arrangement. The terms “this Arrangement”, “hereof”, “herein” and “hereunder” and similar expressions refer to this Arrangement and the schedules hereto and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.04 Number, etc.

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include all genders; and words importing persons shall include firms and corporations and vice versa.

1.05 Date for any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

ARTICLE II

ARRANGEMENT AGREEMENT

2.01 Arrangement Agreement—This Arrangement is made pursuant and subject to the provisions of the Arrangement Agreement.

ARTICLE III

SUMMARY OF THE ARRANGEMENT

3.01 Conversion or Exchange of Shares—On the Effective Date, each Holder, other than Mincan and dissenting shareholders whose HBMS Common Shares are acquired by HBMS pursuant to the provisions of Section 184 of the Act, shall be deemed, at the prior election of such Holder made in the Transmittal Letter or the deemed election pursuant to Section 4.03 hereof, to have either converted all of his HBMS Common Shares into HBMS Special Shares or exchanged all of his HBMS Common Shares for Inspiration Resources Common Shares, and shall cease to be a Holder of HBMS Common Shares. Mincan shall be deemed to have exchanged all of its HBMS Common Shares for Inspiration Resources Common Shares or, in certain events specified in subsection 4.01(g), shall be deemed to have converted and exchanged all of its HBMS Common Shares for a combination of HBMS Special Shares and Inspiration Resources Common Shares, and Mincan shall cease to be a Holder of HBMS Common Shares.

ARTICLE IV

THE ARRANGEMENT

4.01 The Arrangement—On the Effective Date, the following shall occur and be deemed to occur in the following order without any further act or formality:

- (a) the articles of HBMS shall be amended to create an unlimited number of HBMS Special Shares, the rights, privileges, restrictions and conditions attaching to such HBMS Special Shares being set forth in Exhibit I hereto;
- (b) 100 HBMS Common Shares owned by Mincan shall be exchanged with Inspiration Resources for an equal number of Inspiration Resources Common Shares;
- (c) all of the HBMS Common Shares owned by a Private Corporation which has elected to receive Inspiration Resources Common Shares from HBMS shall be exchanged with HBMS for Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged, to the extent of HBMS' ownership of Inspiration Resources Common Shares;
- (d) all of the HBMS Common Shares owned by a Private Corporation which has elected to receive HBMS Special Shares shall be converted into HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share converted;

- (e) all of the HBMS Common Shares owned by a Private Corporation which has elected to receive Inspiration Resources Common Shares from Inspiration Resources shall be exchanged with Inspiration Resources for Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged;
- (f) in the event that the trading price of HBMS Common Shares as of the close of business on the business day immediately preceding the Effective Date does not exceed \$Cdn20.80, the HBMS Common Shares owned by Mincan shall be exchanged with HBMS for Inspiration Resources Common Shares owned by HBMS on the basis set forth in Schedule B to the Arrangement Agreement, to the extent of HBMS' ownership of Inspiration Resources Common Shares;
- (g) in the event that the trading price of HBMS Common Shares as of the close of business on the business day immediately preceding the Effective Date exceeds \$Cdn20.80, the HBMS Common Shares owned by Mincan shall be converted into and exchanged with HBMS for a combination of HBMS Special Shares and Inspiration Resources Common Shares owned by HBMS on the basis set forth in Schedule B to the Arrangement Agreement such that the minimum number of Inspiration Resources Common Shares received by Mincan shall have a fair market value equal to \$Cdn89.5 million, to the extent of HBMS' ownership of Inspiration Resources Common Shares;
- (h) the HBMS Common Shares owned by Mincan and not exchanged or converted pursuant to clauses (b), (f) or (g) above shall be exchanged with Inspiration Resources for such number of Inspiration Resources Common Shares as is equal to the difference between the number of Inspiration Resources Common Shares and HBMS Special Shares determined pursuant to clause (f) or (g) above, as the case may be, and the number of Inspiration Resources Common Shares and HBMS Special Shares received by Mincan pursuant to clause (f) or (g) above, as the case may be;
- (i) all of the HBMS Common Shares owned by HBMS Non-Canadian Public Shareholders who have elected to receive Inspiration Resources Common Shares shall be exchanged with Inspiration Resources for Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged; and
- (j) all of the HBMS Common Shares, except those owned by Mincan, those owned by Private Corporations referred to in clauses (c), (d) and (e) above, those owned by HBMS Non-Canadian Public Shareholders referred to in clause (i) above and those referred to in Section 5.01, shall be, at the prior election or deemed election of the Holder, either (i) converted into HBMS Special Shares on the basis of 1.10 HBMS Special Shares for each HBMS Common Share converted or (ii) up to the maximum number of Inspiration Resources Common Shares determined in accordance with Schedule B to the Arrangement Agreement, exchanged with HBMS for Inspiration Resources Common Shares owned by HBMS on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged and, as to the balance, exchanged with Inspiration Resources for Inspiration Resources Common Shares on the basis of 1.15 Inspiration Resources Common Shares for each HBMS Common Share exchanged.

4.02 Consequences of the Arrangement—On the Effective Date

- (a) with respect to each Holder who elects to convert his HBMS Common Shares into HBMS Special Shares, by reason of subsection 4.01(d) and clause 4.01(j)(i):
 - (i) such Holder ceases to be a Holder of HBMS Common Shares, such Holder's name shall be removed from the register of HBMS Common Shares with respect to such HBMS Common Shares converted, the HBMS Common Shares so converted shall become such number of fully paid and non-assessable HBMS Special Shares calculated on the basis set forth in subsection 4.01(d) and clause 4.01(j)(i) above, and such Holder's name shall be added to the register of HBMS Special Shares as a registered holder of such HBMS Special Shares; and
 - (ii) such Holder shall, subject to Article VI, and as soon as reasonably practicable, be entitled to receive certificates representing such HBMS Special Shares;
- (b) with respect to Mincan, by reason of subsections 4.01(b) and (h):
 - (i) Mincan's HBMS Common Shares shall be exchanged with Inspiration Resources for Inspiration Resources Common Shares;
 - (ii) Mincan's name shall be removed from the register of HBMS Common Shares with respect to such HBMS Common shares so exchanged, and Mincan ceases to be a Holder of HBMS Common Shares;

- (iii) there shall be allotted and issued to Mincan as fully paid and non-assessable the number of Inspiration Resources Common Shares calculated on the basis set forth in subsections 4.01(b) and (h), respectively, and Mincan's name shall be added to the register of Inspiration Resources as the registered holder of such Inspiration Resources Common Shares;
 - (iv) Mincan shall, subject to Article VI and as soon as reasonably practicable, be entitled to receive certificates representing such Inspiration Resources Common Shares; and
 - (v) Inspiration Resources' name shall be entered on the register of the holders of HBMS Common Shares as the owner of the HBMS Common Shares so exchanged and it shall, as soon as reasonably practicable, be entitled to receive certificates representing such HBMS Common Shares;
- (c) with respect to Mincan, by reason of subsection 4.01(f), if applicable:
- (i) all of Mincan's HBMS Common Shares then held by Mincan shall be exchanged for Inspiration Resources Common Shares held by HBMS, and such HBMS Common Shares shall be cancelled by HBMS;
 - (ii) Mincan's name shall be removed from the register of HBMS Common Shares with respect to such HBMS Common Shares so cancelled, and Mincan shall cease to be a holder of HBMS Common Shares;
 - (iii) there shall be transferred to Mincan as fully paid and non-assessable shares the number of Inspiration Resources Common Shares calculated on the basis set forth in subsection 4.01(f), and Mincan's name shall be added to the register of Inspiration Resources Common Shares as the registered holder of such Inspiration Resources Common Shares; and
 - (iv) Mincan shall, subject to Article VI and as soon as reasonably practicable, be entitled to receive certificates representing such Inspiration Resources Common Shares;
- (d) with respect to Mincan, by reason of subsection 4.01(g), if applicable, with respect to the HBMS Common Shares that are exchanged for and converted into Inspiration Resources Common Shares owned by HBMS and HBMS Special Shares, the provisions set forth in subsection 4.02(c) and in subsection 4.02(a) shall apply mutatis mutandis;
- (e) with respect to Private Corporations, by reason of subsection 4.01(c) and with respect to HBMS Canadian Public Shareholders who elect to receive Inspiration Resources Common Shares, up to the maximum number of Inspiration Resources Common Shares determined in accordance with Schedule B to the Arrangement Agreement, by reason of subsection 4.01(c) and clause 4.01(j)(ii),
- (i) all of such Holder's HBMS Common Shares shall be exchanged for Inspiration Resources Common Shares held by HBMS, and such HBMS Common Shares shall be cancelled by HBMS;
 - (ii) such Holder's name shall be removed from the register of HBMS Common Shares with respect to such HBMS Common Shares so cancelled, and such Holder ceases to be a Holder of HBMS Common Shares;
 - (iii) there shall be transferred to each such Holder as fully paid and non-assessable shares the number of Inspiration Resources Common Shares calculated on the basis set forth in subsection 4.01(c) and clause 4.01(j)(ii) and each such Holder's name shall be added to the register of Inspiration Resources Common Shares; and
 - (iv) such Holder shall, subject to Article VI and as soon as reasonably practicable, be entitled to receive certificates representing such Inspiration Resources Common Shares;
- (f) with respect to HBMS Non-Canadian Public Shareholders who elect to receive Inspiration Resources Common Shares, Private Corporations which elect to receive Inspiration Resources Common Shares from Inspiration Resources, and HBMS Canadian Public Shareholders who elect to receive Inspiration Resources Common Shares and who are excluded from receiving such Inspiration Common Shares from HBMS by reason of subsection 4.02(e), by reason of subsections 4.01(e) and (i) and clause 4.01(j)(ii),
- (i) all each of such Holder's HBMS Common Shares shall be exchanged with Inspiration Resources for Inspiration Resources Common Shares;

- (ii) each Holder's name shall be removed from the register of HBMS Common Shares with respect to such HBMS Common Shares so exchanged, and each such Holder shall cease to be a Holder of HBMS Common Shares;
- (iii) there shall be allotted and issued to each such Holder as fully paid and non-assessable the number of Inspiration Resources Common Shares calculated on the basis set forth in subsections 4.01(c) and (i) and clause 4.01(j)(ii), and each of such Holder's name shall be added to the register of Inspiration Resources as the registered holder of such Inspiration Resources Common Shares;
- (iv) each such Holder shall, subject to Article VI and as soon as practicable, be entitled to receive certificates representing such Inspiration Resources Common Shares; and
- (v) Inspiration Resources' name shall be entered on the register of the Holders of HBMS Common Shares as the owner of the HBMS Common Shares so exchanged, and it shall, as soon as reasonably practicable, be entitled to receive certificates representing such HBMS Common Shares.

4.03 Failure to Elect—

- (a) With respect to each HBMS Canadian Public Shareholder who and each Private Corporation which has not elected as of the close of business on the business day immediately preceding the Effective Date to receive HBMS Special Shares or Inspiration Resources Common Shares, such Holder shall be deemed to have elected to receive the number of HBMS Special Shares calculated on the basis set forth in clause 4.01(j)(i) and the provisions set forth in subsection 4.02(a) shall apply to such Holder mutatis mutandis.
- (b) With respect to each HBMS Non-Canadian Public Shareholder who has not elected as of the close of business on the business day immediately preceding the Effective Date to receive HBMS Special Shares or Inspiration Resources Common Shares, such Holder shall be deemed to have elected to receive the number of Inspiration Resources Common Shares calculated on the basis set forth in subsection 4.01 (i) and the provisions set forth in subsection 4.02(f) shall apply to such Holder mutatis mutandis.

ARTICLE V

DISSENTING SHAREHOLDERS

5.01 Rights of Dissent—Holders who exercise rights of dissent pursuant to and in the manner set forth in Section 184 of the Act and who:

- (a) ultimately are paid fair value for their HBMS Common Shares shall be deemed to have transferred their HBMS Common Shares to HBMS for cancellation on the Effective Date; or
- (b) ultimately are not paid fair value for their HBMS Common Shares shall, in the case of an HBMS Canadian Public shareholder and a Private Corporation be deemed to have converted his or its HBMS Common Shares on the Effective Date into the number of HBMS Special Shares calculated on the basis set forth in clause 4.01(j)(i) and, in the case of a HBMS Non-Canadian Public Shareholder, be deemed to have exchanged his HBMS Common Shares for the number of Inspiration Resources Common Shares calculated on the basis set forth in subsection 4.01(i);

but in no case shall HBMS be required to recognize such Holders as Holders of HBMS Common Shares from and after the Effective Date, and the names of such Holders shall be deleted from the register of Holders of HBMS Common Shares from and after the Effective Date.

ARTICLE VI

OUTSTANDING CERTIFICATES

6.01 Certificates—On and after the Effective Date, a certificate formerly representing HBMS Common Shares, other than HBMS Common Shares held by Holders referred to in Section 5.01, shall represent only the right to receive a certificate for either, if applicable, HBMS Special Shares or Inspiration Resources Common Shares and a cash payment pursuant to Section 6.02 upon the Holder depositing with a Depositary such certificate duly endorsed for transfer and accompanied by such other documents as would have been required to effect a transfer of the HBMS Common Shares formerly represented by such certificate under the Act and the articles and by-laws of HBMS and as such Depositary may reasonably require.

6.02 Fractional Shares—No share certificates representing either fractional HBMS Special Shares or fractional Inspiration Resources Common Shares will be delivered. In lieu thereof, each Holder shall be entitled to a cash payment equal to such Holder's pro rata portion of the price received by a Depositary upon the sale of whole shares representing an accumulation of all fractional interests of HBMS Special Shares or Inspiration Resources Common Shares to which such HBMS Shareholder would be otherwise entitled. A Depositary will sell the HBMS Special Shares and/or the Inspiration Resources Common Shares involved on The Toronto Stock Exchange or the New York Stock Exchange, respectively, or on such other stock exchange or automated quotation system on which the HBMS Special Shares or Inspiration Resources Common Shares are listed or quoted, during the sixty day period following the Effective Date. Such Depositary shall initially endeavour to sell the whole shares made up of such fractions not later than the date when a board-lot is accumulated or thirty days following the Effective Date whichever is earlier. The proceeds of each such sale will be distributed by such Depositary pro rata, in relation to the respective fractions, among the shareholders otherwise entitled to either fractional HBMS Special Shares or Inspiration Resources Common Shares.

**EXHIBIT I TO SCHEDULE A TO THE ARRANGEMENT
AGREEMENT DATED AS OF MAY 14, 1983 AMONG HUDSON BAY
MINING AND SMELTING CO., LIMITED, INSPIRATION
RESOURCES CORPORATION AND MINERALS AND RESOURCES
CORPORATION LIMITED**

1.00 Interpretation

For the purposes of these share provisions:

1.01 “Affiliate” means, in relation to one corporation, person, trust, firm, partnership or other entity (any such entity being called a “Person”) another Person if either of them (i) owns directly or indirectly more than 20% of the shares of the other Person or exercises control or direction over more than 20% of the votes attached to the shares of the other Person or (ii) directly or indirectly, through the ownership of voting securities, by contract, or otherwise, possesses the power to direct or cause the direction of the management and policies of the other Person. If two Persons are affiliated with another Person at the same time, each of the two Persons shall be deemed to be an affiliate of the other.

1.02 “Arrangement” means the plan of arrangement which is set forth in Schedule A to the Arrangement Agreement and to which this Exhibit I is annexed.

1.03 “Arrangement Agreement” means the agreement dated as of May 14, 1983 among HBMS, Inspiration Resources and Minerals and Resources Corporation Limited, to which the Arrangement, this Exhibit I and the Inspiration Resources Agency Agreement are annexed.

1.04 “Automatic Exchange Date” means the date for the automatic exchange of HBMS Special Shares into Inspiration Resources Common Shares, which date shall be the earlier of (i) the last date on which a holder of Inspiration Resources Common Shares is entitled to fully participate in the liquidation, dissolution or winding up of Inspiration Resources or any other distribution of the assets of Inspiration Resources among its shareholders for the purpose of winding up its affairs, or (ii) July 6, 1993, unless such date shall be extended at any time or from time to time to a specified later date by the Board of Directors of HBMS upon at least forty-five (45) Business Days prior written notice of any such extension to the registered holders of the HBMS Special Shares by the Trustee under the Inspiration Resources Agency Agreement, in which case such later date; provided, however, that accidental failure or omission to give any such notice to less than 10% of such holders shall not affect the validity of such extension.

1.05 “Business Day” means a day other than a Saturday, a Sunday or any other day that is a statutory holiday in the jurisdiction in which the registered office of HBMS is located.

1.06 “Canadian Dollar Equivalent” means in respect of an amount expressed in a foreign currency (the “Foreign Currency Amount”) at any date the product obtained by multiplying (a) the Foreign Currency Amount, by (b) the noon spot exchange rate on such date for such foreign currency expressed in Canadian dollars as reported by the Bank of Canada, or, in the event such a rate is not available, such rate on such date for Canadian dollars expressed in such foreign currency as may be deemed by the Board of Directors of HBMS to be appropriate for such purpose.

1.07 “Current Market Price” means in respect of an Inspiration Resources Common Share at any date, the Canadian Dollar Equivalent of the weighted average of the daily closing prices of Inspiration Resources Common Shares during a period of thirty (30) consecutive trading days commencing forty-five (45) Business Days before such date on the New York Stock Exchange, or, if the Inspiration Resources Common Shares are not then listed on the New York Stock Exchange, on such other stock exchange or automated quotation system on which the Inspiration Resources Common Shares are listed or quoted, as the case may be, as may be selected by the Board of Directors of HBMS for such purpose; provided, however, that if in the opinion of the Board of Directors of HBMS the public distribution or trading activity of Inspiration Resources Common Shares during such period does not create a market which reflects the fair market value of an Inspiration Resources Common Share, then the Current Market Price of an Inspiration Resources Common Share shall be determined by the Board of Directors of HBMS based upon the advice of such qualified independent financial advisors as the Board of Directors of HBMS may deem to be appropriate, and provided further that any such selection, opinion or determination by the Board of Directors of HBMS shall be conclusive and binding.

1.08 “Effective Date” means the date shown in the certificate of amendment issued to HBMS in respect of the Arrangement.

1.09 “HBMS” means Hudson Bay Mining and Smelting Co., Limited, a corporation organized and existing under the laws of Canada.

1.10 “HBMS Common Shares” mean the common shares without nominal or par value in the capital of HBMS.

1.11 “HBMS Special Shares” mean the “Special, Exchangeable, Non-Voting Shares” in the capital of HBMS having the rights, privileges, restrictions and conditions set forth herein.

1.12 “Inspiration Resources” means Inspiration Resources Corporation, formerly known as Plateau Holdings Inc., a corporation organized and existing under the laws of the State of Maryland, and any successor corporation.

1.13 “Inspiration Resources Agency Agreement” means the Inspiration Resources Exchange Agency and Trust Agreement among HBMS, Inspiration Resources and the Trustee, dated as of July 6, 1983.

1.14 “Inspiration Resources Common Shares” mean the shares without par value of Inspiration Resources having voting rights of one vote per share.

1.15 “Inspiration Resources Dividend Declaration Date” means the date on which the Board of Directors of Inspiration Resources declares any dividend on the Inspiration Resources Common Shares.

1.16 “Inspiration Resources Trust Shares” mean the shares of Inspiration Resources with a par value of \$US0.0001 per share and having voting rights of one vote per share to be issued to, and voted by, the Trustee pursuant to the Inspiration Resources Agency Agreement.

1.17 “Junior Shares” mean the HBMS Common Shares and any other shares of HBMS ranking junior to the HBMS Special Shares with respect to priority in the payment of dividends and the distribution of assets in the event of a Voluntary Liquidation.

1.18 “Redemption Price” has the meaning ascribed by subsection 7.01 of these share conditions.

1.19 “Share Exchange Rate” has the meaning ascribed by the provisions of Section 5, and, in particular, subsection 5.01, of these share provisions.

1.20 “Trustee” means Montreal Trust Company, a corporation organized and existing under the laws of the Province of Quebec and any successor trustee appointed under the Inspirations Resources Agency Agreement.

1.21 “Voluntary Liquidation” means any liquidation, dissolution or winding up of HBMS or any other distribution of the assets of HBMS among its shareholders for the purpose of winding up its affairs that is commenced at the instance of, or is supported by, Inspiration Resources or one or more of its Affiliates.

2.00 Conversion Of HBMS Common Shares Into HBMS Special Shares; Issue Price For Other HBMS Special Shares

2.01 Upon the conversion under the Arrangement of any HBMS Common Shares into HBMS Special Shares, there shall be added to the stated capital account maintained for the HBMS Special Shares, and deducted from the stated capital account maintained for the HBMS Common Shares, an amount equal to the product obtained by multiplying (a) the quotient obtained by dividing (i) the stated capital of the HBMS Common Shares at the opening of business on the Effective Date of the Arrangement, by (ii) the number of issued and outstanding HBMS Common Shares at that time, by (b) the number of HBMS Common Shares converted into HBMS Special Shares under the Arrangement.

2.02 The issue price of each HBMS Special Share, issued otherwise than under the Arrangement, shall be determined by the Board of Directors of HBMS at the time of issuance of such HBMS Special Share.

3.00 Ranking of HBMS Special Shares

3.01 The HBMS Special Shares shall be entitled to a preference over the Junior Shares with respect to the payment of dividends and the distribution of assets in the event of a Voluntary Liquidation. The HBMS Special Shares shall not be entitled to a preference over, and shall rank on a parity with, the HBMS Common Shares with respect to priority in the distribution of assets in the event of any other liquidation, dissolution or winding up of HBMS or any other distribution of the assets of HBMS among its shareholders for the purpose of winding up its affairs.

4.00 Dividends

4.01 Holders of the HBMS Special Shares shall be entitled to receive, and HBMS shall pay thereon as and when declared by the Board of Directors of HBMS, out of money or property of HBMS properly applicable to the payment of dividends, or out of authorized but unissued shares of HBMS, dividends in the amounts determined from time to time pursuant to this Section 4 of these share provisions. Cheques of HBMS payable at par at any branch of the bankers of HBMS in Canada shall be issued in respect of any such cash dividends and the sending of

such a cheque to any holder shall satisfy the cash dividend represented thereby unless the cheque be not paid on presentation. No shareholder shall be entitled to recover by action or other legal process against HBMS any dividend that is represented by a cheque that has not been duly presented to bankers for payment or that otherwise remains unclaimed for a period of six (6) years from the date on which it was payable. Certificates registered in the name of the registered holder of HBMS Special Shares shall be issued or transferred in respect of any such stock dividends and the sending of such a certificate to any holder shall satisfy the stock dividend represented thereby.

4.02 The Board of Directors of HBMS may, subject to the Canada Business Corporations Act, declare any dividend on the HBMS Special Shares.

4.03 In addition and apart from any dividend declared under section 4.02 of these share provisions, holders of HBMS Special Shares shall be entitled to receive and the Board of Directors of HBMS shall, subject to the Canada Business Corporations Act, within five (5) Business Days following an Inspiration Resources Dividend Declaration Date, declare a dividend on the HBMS Special Shares (a) in the case of a cash dividend on the Inspiration Resources Common Shares, in an amount for each outstanding HBMS Special Share equal to the product obtained by multiplying (i) the Share Exchange Rate in effect on the date such dividend is declared by the Board of Directors of HBMS, by (ii) the Canadian Dollar Equivalent on the Inspiration Resources Dividend Declaration Date of the dividend declared on the Inspiration Resources Common Shares or (b) in the case of a stock dividend on the Inspiration Resources Common Shares paid in Inspiration Common Shares, in such number of HBMS Special Shares for each outstanding HBMS Special Share equal to the number of Inspiration Resources Common Shares distributed with respect to each Inspiration Resources Common Share outstanding.

4.04 The record date for the determination of the holders entitled to receive payment of, and the payment date for, any dividend declared on the HBMS Special Shares under Section 4.03 of these share provisions shall be the same dates as the record date and payment date, respectively, for the corresponding dividend declared on the Inspiration Resources Common Shares.

4.05 The provisions of this Section 4 of these share provisions must be read in conjunction with the Inspiration Resources Agency Agreement which provides, in part, that Inspiration Resources shall cause HBMS to declare, and pay at the same time and in the same manner, a dividend in accordance with the provisions of Section 4.03 of these share provisions.

5.00 Share Exchange Rate

5.01 As used in these share provisions, the term “Share Exchange Rate” refers to the rate at which Inspiration Resources Common Shares (or, in certain circumstances set forth herein, other securities or property) will be exchanged for HBMS Special Shares pursuant to the Inspiration Resources Agency Agreement and, for the purposes hereof, the Share Exchange Rate at which Inspiration Resources Common Shares shall be exchanged for HBMS Special Shares shall be one (1) Inspiration Resources Common Share for each HBMS Special Share as of and from the Effective Date of the Arrangement to which this Exhibit I is annexed, subject to this Share Exchange Rate being adjusted from time to time in the events and in the manner provided as follows:

- (a) if and whenever, at any time and from time to time, Inspiration Resources shall
 - (i) subdivide or otherwise change the outstanding Inspiration Resources Common Shares into a greater number of Inspiration Resources Common Shares,
 - (ii) reduce, combine, consolidate or otherwise change the outstanding Inspiration Resources Common Shares into a smaller number of Inspiration Resources Common Shares,
 - (iii) issue Inspiration Resources Common Shares to all or substantially all the holders of outstanding Inspiration Resources Common Shares as a stock dividend, other than as a dividend on the Inspiration Resources Common Shares which results in a dividend on the HBMS Special Shares in accordance with Section 4.03 of these share provisions, or,
 - (iv) make a distribution on the outstanding Inspiration Resources Common Shares payable in Inspiration Resources Common Shares or securities exchangeable for or convertible into Inspiration Resources Common Shares, other than as a dividend on the Inspiration Resources Common Shares which results in a dividend on the HBMS Special Shares in accordance with Section 4.03 of these share provisions,

(any of the events in clauses 5.01(a)(i), (ii), (iii) and (iv) being called an “Inspiration Resources Common Share Reorganization”), the Share Exchange Rate shall be adjusted effective immediately after the record date at which the holders of the Inspiration Resources Common Shares are determined for the purposes of the Inspiration Resources Common Share Reorganization by multiplying (v) the Share Exchange Rate in effect immediately prior to such record date, by (vi) a fraction, the numerator of which shall be the number of

Inspiration Resources Common Shares outstanding after giving effect to such Inspiration Resources Common Share Reorganization, including, in the case where securities exchangeable for or convertible into Inspiration Resources Common Shares are distributed, the number of Inspiration Resources Common Shares that would have been outstanding had all such securities been exchanged for or converted into Inspiration Resources Common Shares on such record date, and the denominator of which shall be the number of Inspiration Resources Common Shares outstanding on such record date before giving effect to such Inspiration Resources Common Share Reorganization;

(b) if and whenever at any time Inspiration Resources shall issue rights, options or warrants to all or substantially all of the holders of the outstanding Inspiration Resources Common Shares under which such holders are entitled, during a period expiring not more than forty-five (45) days after the record date for such issue (the "Rights Period"), to subscribe for or purchase Inspiration Resources Common Shares or securities exchangeable for or convertible into Inspiration Resources Common Shares at a price per share to the holder (or at an exchange or conversion price per share at the date of issue of such securities to the holder in the case of securities exchangeable for or convertible into Inspiration Resources Common Shares) of less than ninety-five (95)% of the Current Market Price of the Inspiration Resources Common Shares on such record date (any of such events being called a "Rights Offering"), then the Share Exchange Rate shall be adjusted on the tenth (10th) day effective as of the seventh (7th) day after the end of the Rights Period by multiplying (i) the Share Exchange Rate in effect immediately prior to the end of the Rights Period, by (ii) a fraction:

(1) the numerator of which shall be the number of Inspiration Resources Common Shares outstanding after giving effect to the Rights Offering including the number of Inspiration Resources Common Shares actually issued or subscribed for during the Rights Period upon exercise of the rights, warrants or options under the Rights Offering, and

(2) the denominator of which shall be the aggregate of:

(A) the number of Inspiration Resources Common Shares outstanding as of the record date for the Rights Offering, and

(B) a number determined by dividing (a) either the product of (i) the number of Inspiration Resources Common Shares issued or subscribed during the Rights Period upon exercise of the rights, warrants or options under the Rights Offering and (ii) the price at which such Inspiration Resources Common Shares are offered; or, as the case may be, the product of (iii) the number of Inspiration Resources Common Shares for or into which the securities so offered pursuant to the Rights Offering have been exchanged or converted within seven (7) days after the expiry of the Rights Period, and (iv) the exchange or conversion price of such securities offered, by (b) the Current Market Price of the outstanding Inspiration Resources Common Shares as of the record date for the Rights Offering;

(c) if and whenever at any time Inspiration Resources shall issue or distribute to all or substantially all holders of the outstanding Inspiration Resources Common Shares (i) shares of Inspiration Resources of any class other than Inspiration Resources Common Shares, (ii) rights, options or warrants to acquire Inspiration Resources Common Shares or securities exchangeable for or convertible into Inspiration Resources Common Shares or assets of Inspiration Resources, (iii) evidences of indebtedness of Inspiration Resources, or (iv) any other assets of Inspiration Resources, and if such issuance or distribution does not constitute (x) a dividend on Inspiration Resources Common Shares which results in a dividend on the HBMS Special Shares in accordance with Section 4.03 of these share provisions, (y) an Inspiration Resources Common Share Reorganization, or (z) a Rights Offering (any of such non-excluded events being herein called a "Special Distribution"), the Share Exchange Rate shall be adjusted effective immediately after the record date at which the holders of Inspiration Resources Common Shares are determined for purposes of the Special Distribution to a Share Exchange Rate determined by multiplying (1) the Share Exchange Rate in effect on the record date of the Special Distribution, by (2) a fraction:

(A) the numerator of which shall be the number of Inspiration Resources Common Shares outstanding on such record date multiplied by the Current Market Price of the Inspiration Resources Common Shares on such record date, and

(B) the denominator of which shall be the difference between:

- (a) the product obtained by multiplying (i) the number of Inspiration Resources Common Shares outstanding on such record date, by (ii) the Current Market Price of the Inspiration Resources Common Shares on such record date; and
 - (b) the fair market value, as determined by the Board of Directors of HBMS based upon the advice of such qualified independent financial advisors as the Board of Directors of HBMS may deem appropriate (which determination by the Board of Directors of HBMS shall be conclusive and binding), to the holders of the Inspiration Resources Common Shares of the shares, rights, options, warrants, evidences of indebtedness, securities or other assets issued or distributed in the Special Distribution;
- (d) in case of any reclassification of the Inspiration Resources Common Shares outstanding at any time or change of the Inspiration Resources Common Shares into other shares, other than an Inspiration Resources Common Share Reorganization, or in case of the consolidation or merger of Inspiration Resources with or into any other corporation (other than a consolidation or merger which does not result in any reclassification of the outstanding Inspiration Resources Common Shares or a change of the Inspiration Resources Common Shares into other shares), or in case of any transfer of the undertaking and assets of Inspiration Resources as an entirety or substantially as an entirety to another corporation, any holder who thereafter shall exchange its HBMS Special Shares for Inspiration Resources Common Shares shall be entitled to receive, and shall accept, in lieu of the number of Inspiration Resources Common Shares to which such holder was theretofore entitled upon such exchange, the kind and amount of shares and other securities or property which such holder would have been entitled to receive as a result of such reclassification, change, consolidation, merger or transfer if, on the effective date thereof, the holder had been the registered holder of the number of Inspiration Resources Common Shares to which such holder was then entitled upon exchange as well as any interest or dividends on or other accretions to such shares, securities or property as of and from such effective date. Following any such reclassification, change, consolidation, merger or transfer, appropriate adjustments shall be made from time to time in the application of the provisions set forth in this Section 5 with respect to the rights and interests thereafter of the holders of HBMS Special Shares in order that the provisions set forth in this Section 5 shall thereafter correspondingly be made applicable, as nearly as may reasonably be done, to adjust the rate at which, in accordance with the foregoing, the HBMS Special Shares may thereafter be exchanged for any such shares or other securities or property.

5.02 In the case of any reclassification of, or other change in, the outstanding Inspiration Resources Common Shares, other than an Inspiration Resources Common Share Reorganization, the dividends to which holders of HBMS Special Shares are entitled in accordance with Section 4.03 of these share provisions shall be based upon the dividends payable upon the shares held by the holders of Inspiration Resources Common Shares as a result of such reclassification of, or such other change in, the outstanding Inspiration Resources Common Shares.

5.03 If Inspiration Resources is consolidated with or merged with or into another corporation (other than a consolidation or a merger which does not result in any reclassification of, or change in, the outstanding Inspiration Resources Common Shares), the dividends to which the holders of HBMS Special Shares are entitled in accordance with Section 4.03 of these share provisions shall be based upon the dividends on the capital stock of the resulting corporation, if any, received by the holders of Inspiration Resources Common Shares.

5.04 For the purposes of this Section 5:

- (a) any adjustment pursuant to this Section 5 shall be made successively whenever an event referred to herein shall occur, subject to the following paragraphs of this subsection;
- (b) no adjustment in the Share Exchange Rate shall be required unless such adjustment would result in a change of at least one (1) % in the prevailing Share Exchange Rate provided, however, that any adjustments which, except for the provisions of this paragraph (b) would otherwise have been required to be made, shall be carried forward and taken into account in any subsequent adjustment; provided further, that in no event shall Inspiration Resources be obligated to issue fractional Inspiration Resources Common Shares upon exchange of HBMS Special Shares;
- (c) no adjustment in the Share Exchange Rate shall be made in respect of any event described in this section 5, other than the events referred to in clauses (iii) and (iv) of paragraph 5.01(a), or any other event not described in this Section 5, if holders of HBMS Special Shares are entitled to participate in such event, or

are entitled to participate within forty-five (45) days in a comparable event, on the same terms, mutatis mutandis, as if the holders had exchanged their HBMS Special Shares for Inspiration Resources Common Shares prior to or on the effective date or record date of any such event;

- (d) if a dispute shall at any time arise with respect to adjustments of the Share Exchange Rate or the number of Inspiration Resources Common Shares receivable upon exchange of HBMS Special Shares, such disputes shall be conclusively determined by the auditors of HBMS or, if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the Board of Directors of HBMS and any such determination shall be conclusive evidence of the correctness of any adjustment made under this Section 5;
- (e) in case Inspiration Resources shall take any action affecting the Inspiration Resources Common Shares, other than an action described elsewhere in this Section 5, which in the opinion of the Board of Directors of HBMS would have a material adverse effect on the rights of holders of HBMS Special Shares, the Share Exchange Rate shall be adjusted in such manner, if any, and at such time, as the Board of Directors of HBMS in its sole discretion may determine to be equitable in the circumstances. The failure by the Board of Directors of HBMS to make an adjustment in the Share Exchange Rate within twenty (20) Business Days after receiving notice from Inspiration Resources of any action by Inspiration Resources affecting the Inspiration Resources Common Shares shall be conclusive evidence that the Board of Directors of HBMS has determined that it is equitable to make no adjustment in the Share Exchange Rate in the circumstances;
- (f) if Inspiration Resources shall fix a record date for the purpose of determining the holders of the Inspiration Resources Common Shares entitled to receive any distribution or any subscription or purchase rights and shall, thereafter and before the distribution to such shareholders of any such distribution or subscription or purchase rights, legally abandon its plan to pay or deliver such distribution or subscription or purchase rights, then no adjustment in the Share Exchange Rate shall be required by reason of the fixing of such a record date; and
- (g) any Inspiration Resources Common Shares owned by or for the account of Inspiration Resources shall be deemed not to be outstanding.

5.05 HBMS shall at the request of a holder of HBMS Special Shares provide written notice to such holder of the Share Exchange Rate then in effect.

5.06 The provisions of this Section 5 of these share provisions must be read in conjunction with the Inspiration Resources Agency Agreement which provides, in part, that at least twenty-one (21) days prior to the effective date or record date, as the case may be, of any event (other than a subdivision or a consolidation of the outstanding Inspiration Resources Common Shares) which requires, might require or would, but for the provisions of paragraph 5.04(c) of these share provisions, require an adjustment in the Share Exchange Rate, Inspiration Resources shall:

- (a) file with the Trustee a certificate specifying the particulars of such event and, if determinable, the required adjustment in the Share Exchange Rate and the computation of such adjustment; and
- (b) give notice to HBMS and to the holders of the outstanding HBMS Special Shares of the particulars of such event and, if determinable, the required adjustment in the Share Exchange Rate.

In case any adjustment in the Share Exchange Rate for which the aforementioned notice has been given is not then determinable, Inspiration Resources has agreed under the Inspiration Resources Agency Agreement to:

- (c) file with the Trustee a computation of such adjustment; and
- (d) give notice to the holders of the HBMS Special Shares,

promptly after such adjustment is determinable. Inspiration Resources has agreed under the Inspiration Resources Agency Agreement that, in any event, Inspiration Resources shall give notice to the holders of HBMS Special Shares forthwith after the occurrence of any adjustment in the Share Exchange Rate pursuant to Section 5 of these share provisions and that it shall give notice to HBMS immediately upon taking any other action which would affect the Inspiration Resources Common Shares.

6.00 Restrictions on Distributions on Junior Shares

6.01 So long as any of the HBMS Special Shares are outstanding, HBMS shall not at any time without, but may at any time with, the approval of the holders of the HBMS Special Shares given as specified in Section 11:

- (a) pay any dividends on the Junior Shares, other than stock dividends payable in Junior Shares;

- (b) redeem or purchase or make any capital distribution in respect of Junior Shares;
- (c) redeem or purchase any other shares of HBMS ranking equally with the HBMS Special Shares with respect to the payment of dividends or on any liquidation distribution; or
- (d) issue any HBMS Special Shares or any other shares of HBMS ranking equally with the HBMS Special Shares other than by way of stock dividends to the holders of such HBMS Special Shares,

unless all dividends on the outstanding HBMS Special Shares corresponding to dividends declared to date on the Inspiration Resources Common Shares have been declared on the HBMS Special Shares and paid in full.

7.00 Redemption

7.01 Subject to section 7.02 and the Canada Business Corporation Act, HBMS may on the Business Day immediately preceding July 6, 1993, and in the event the Automatic Exchange Date is extended to a date subsequent to July 6, 1993, may, at any time and from time to time on or after July 5, 1993, redeem the whole or any part of the then outstanding HBMS Special Shares on (a) a payment of an amount equal to the product obtained by multiplying (i) the number of HBMS Special Shares to be redeemed by (ii) the product obtained by multiplying (A) the Current Market Price of an Inspiration Resources Common Share, by (B) the Share Exchange Rate in effect on the redemption date, or (b) a transfer of that number of Inspiration Resources Common Shares equal to the product obtained by multiplying (i) the number of HBMS Special Shares to be redeemed, by (ii) the Share Exchange Rate in effect on the redemption date, together with, in the case of either (a) or (b) above, the payment of the full amount of all dividends to which holders of HBMS Special Shares to be redeemed are then entitled (collectively such payment or transfer and any payment on account of such dividends being the "Redemption Price").

7.02 In the event Inspiration Resources sells to a non-Affiliate at any time all of the HBMS Common Shares held by it at that time or causes or permits HBMS to sell, transfer or convey to a non-Affiliate all or substantially all of its undertaking, HBMS may, at any time and from time to time subsequent to the date of either such sale, redeem the whole or any part of the then outstanding HBMS Special Shares on payment of the Redemption Price for each HBMS Special Share to be redeemed.

7.03 In any case of a redemption of HBMS Special Shares under this Section 7, HBMS shall, at least thirty (30) Business Days before the date specified for redemption, send to each person who at the date of sending is a holder of HBMS Special Shares to be redeemed a notice in writing of the intention of HBMS to redeem such HBMS Special Shares. Such notice shall be sent in a prepaid envelope addressed to each such shareholder at his address as it appears in the records of HBMS or, in the event of the address of any such shareholder not so appearing, then at the last known address of such shareholder; provided, however, that accidental failure or omission to give any such notice to one or more of such holders shall not affect the validity of such redemption. Such notice shall set out the Redemption Price or, if not determinable, a formula for determining the Redemption Price and the date on which redemption is to take place, and, if only part of the HBMS Special Shares held by the person to whom such notice is addressed are to be redeemed, the number thereof so to be redeemed. Such notice shall also state that the HBMS Special Shares are exchangeable into Inspiration Resources Common Shares and shall set out the Share Exchange Rate in effect on the date of the sending of the notice. On or after the date so specified for redemption, HBMS shall pay or cause to be paid to or to the order of, or transferred to, as the case may be, the holders of the HBMS Special Shares to be redeemed the Redemption Price on presentation and surrender at the registered office of HBMS or any other place in Canada designated in such notice of the certificates representing such HBMS Special Shares. Such payment shall be made, at the option of HBMS and subject to the Canada Business Corporations Act, by cheque payable at par at any branch of bankers of HBMS in Canada and/or by share certificates representing duly issued and registered Inspiration Resources Common Shares. On and after the date specified for redemption in such notice, the holders of the HBMS Special Shares called for redemption shall cease to be shareholders in respect of such HBMS Special Shares and shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the Redemption Price shall not be made upon presentation and surrender of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected. HBMS shall have the right at any time after the sending of notice of its intention to redeem any HBMS Special Shares as aforesaid to deposit the Redemption Price of the HBMS Special Shares so called for redemption, or of such of the said HBMS Special Shares represented by certificates that have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption, in the case of a cash payment, in a special account in any chartered bank or trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such HBMS Special Shares upon presentation and

surrender to such bank or trust company of the certificates representing the same, or, in the case of a transfer of Inspiration Resources Common Shares, in a custodial account with any such financial institution. Upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the HBMS Special Shares in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving their proportionate part of the total Redemption Price so deposited, against presentation and surrender of the said certificates held by them respectively, provided that any interest allowed on any such cash deposit shall be for the account of HBMS. If only part of the HBMS Special Shares are to be redeemed, the HBMS Special Shares to be redeemed shall be determined by the Board of Directors of HBMS in such manner as the Board of Directors of HBMS in its sole discretion shall deem equitable, including, without limiting the generality of the foregoing, selection of the HBMS Special Shares to be redeemed by lot or selection of such shares on a pro rata basis (disregarding fractions). If only part of the HBMS Special Shares represented by any certificate or certificates are redeemed, a new certificate for the balance shall be issued at the expense of HBMS.

8.00 Purchases of HBMS Special Shares

8.01 HBMS may, at any time and from time to time, purchase for cancellation the whole or any part of the then outstanding HBMS Special Shares at the lowest price at which, in the opinion of the Board of Directors of HBMS, such HBMS Special Shares are obtainable provided that HBMS may not purchase at such time less than all the then outstanding HBMS Special Shares unless all dividends payable at the date of purchase on the HBMS Special Shares corresponding to dividends declared to the date of purchase on the Inspiration Resources Common Shares have been declared on the HBMS Special Shares and paid in full.

9.00 Distribution on Liquidation

9.01 In the event of a Voluntary Liquidation, the holders of HBMS Special Shares shall be entitled, subject to the Canada Business Corporations Act, to receive from the assets of HBMS in respect of each HBMS Special Share held by such holder on the effective date of the Voluntary Dissolution, before any distribution of any part of the assets of HBMS among the holders of the Junior Shares, either a cash payment in an amount equal to the product obtained by multiplying (a) the Current Market Price of an Inspiration Resources Common Share on the day which is twenty-one (21) days prior to the effective date of the Voluntary Liquidation, by (b) the Share Exchange Rate in effect on such day which is twenty-one (21) days prior to the effective date of the Voluntary Liquidation, or, at the option of HBMS, that number (rounded to the next lowest whole number) of Inspiration Resources Common Shares equal to the Share Exchange Rate in effect on the day which is twenty-one (21) days prior to the effective date of the Voluntary Liquidation, together with, in the case of either a cash payment or a transfer of Inspiration Resources Common Shares, the payment of the full amount of all dividends to which holders of HBMS Special Shares are then entitled.

9.02 In the event of any other liquidation, dissolution or winding up of HBMS or any other distribution of the assets of HBMS among its shareholders for the purpose of winding up its affairs, the holders of HBMS Special Shares shall be entitled, subject to the Canada Business Corporations Act, to receive from the assets of HBMS in respect of each HBMS Special Share held on the effective date of such other liquidation, dissolution or winding up, on a parity with any distribution of any part of the assets of HBMS among the holders of HBMS Common Shares, either a cash payment in an amount equal to the product obtained by multiplying (a) the Current Market Price of an Inspiration Resources Common Share on the day which is twenty-one (21) days prior to the effective date of such other liquidation, dissolution or winding up, by (b) the Share Exchange Rate in effect on such day which is twenty-one (21) days prior to the effective date of such other liquidation, dissolution or winding up, or, at the option of HBMS, that number of Inspiration Resources Common Shares equal to the Share Exchange Rate in effect on the day which is twenty-one (21) days prior to the effective date of such other liquidation, dissolution or winding up, together with, in the case of either a cash payment or a transfer of Inspiration Resources Common Shares, the payment of the full amount of all dividends to which holders of HBMS Special Shares are then entitled.

9.03 After HBMS has paid or satisfied its obligations to pay the holders of the HBMS Special Shares the amount, if any, payable to them pursuant to either subsection 9.01 or 9.02, such holders shall not be entitled to share in any further distribution of the assets of HBMS.

9.04 The provisions of this Section 9 of these share provisions must be read in conjunction with the Inspiration Resources Agency Agreement which provides, in part, that Inspiration Resources agrees, for the benefit of holders of HBMS Special Shares, to provide or cause to be provided to HBMS such funds or property as may be necessary

in order that HBMS will be in a position to permit the lawful and timely distribution and due and punctual payment or satisfaction of all amounts payable to the holders of HBMS Special Shares upon a Voluntary Liquidation as provided in these share provisions.

10.00 Voting Rights

10.01 Subject to the Canada Business Corporations Act, the holders of the HBMS Special Shares shall, as such, have no voting rights for the election of Directors of HBMS or for any other purpose relative to HBMS including, without limitation, the approval of any amendment to the articles of HBMS of the type referred to in paragraphs 170(1) (a) or (e) of the Canada Business Corporations Act, such as an amendment creating a new class of shares ranking superior or equal to the HBMS Special Shares in any respect, nor shall the holders of HBMS Special Shares, as such, be entitled to receive notice of or to attend any meeting of shareholders of HBMS.

10.02 The provisions of this Section 10 of these share provisions must be read in conjunction with the Inspiration Resources Agency Agreement which provides, in part, that all of the voting rights with respect to the Inspiration Resources Trust Shares shall be and remain vested in the Trustee, for the benefit of the holders of the HBMS Special Shares, and shall be exercisable by the Trustee to the extent that the Trustee is instructed to do so by the holders of the HBMS Special Shares. Under the Inspiration Resources Agency Agreement, each holder of an HBMS Special Share shall be entitled to instruct the Trustee with respect to the voting of (or to vote personally, in the event that: (a) the Inspiration Resources Trust Shares have been distributed to the holders of HBMS Special Shares pursuant to Article Twelve of the Inspiration Resources Agency Agreement, or (b) such holder has elected to attend a meeting of shareholders of Inspiration Resources and vote personally thereat in accordance with the Inspiration Resources Agency Agreement) the number of Inspiration Resources Trust Shares equal to the whole number product obtained by multiplying (c) the number of HBMS Special Shares owned by the holder on the record date established by Inspiration Resources for purposes of determining the holders of Inspiration Resources Common Shares entitled to vote at such meeting, by (d) the Share Exchange Rate in effect on such date.

11.00 Approval of Holders of HBMS Special Shares

11.01 The approval of the holders of the HBMS Special Shares as to any matters referred to in these provisions, or, subject to the Canada Business Corporations Act, to any amendment to the articles of HBMS requiring the approval of the HBMS Special Shares as a class, may be given as specified below:

- (a) any approval given by the holders of HBMS Special Shares shall be deemed to have been sufficiently given if it shall have been given in writing by the holders of all the outstanding HBMS Special Shares at that time or by a resolution passed by the affirmative vote of not less than two-thirds ($\frac{2}{3}$) of the votes cast on such resolution at a meeting of holders of HBMS Special Shares duly called and held upon not less than twenty-one (21) days' notice at which the holders of at least forty (40)% of the outstanding HBMS Special Shares at that time are present or are represented by proxy. If at any such meeting the holders of at least forty (40)% of the outstanding HBMS Special Shares at that time are not present or represented by proxy within one-half ($\frac{1}{2}$) hour after the time appointed for such meeting then the meeting shall be adjourned to such date not less than fifteen (15) days thereafter and to such time and place as may be designated by the chairman appointed by those present, and not less than ten (10) days' written notice shall be given of such adjourned meeting. At such adjourned meeting, the holders of HBMS Special Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of not less than two-thirds ($\frac{2}{3}$) of the votes cast on such resolution at such meeting shall constitute the approval of the holders of the HBMS Special Shares; and
- (b) on every poll taken at every such meeting every holder of HBMS Special Shares shall be entitled to one vote in respect of each HBMS Special Share held. Subject to the foregoing, the formalities to be observed in respect of the giving or waiving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed by the Canada Business Corporations Act and the by-laws and standing resolutions of HBMS with respect to meetings of shareholders.

12.00 Exchange Privilege

12.01 These share provisions must be read in conjunction with the Inspiration Resources Agency Agreement which provides, in part, that on or before the close of business on the Business Day immediately preceding the Automatic Exchange Date, a holder may, at his option, exchange his outstanding HBMS Special Shares for that number of Inspiration Resources Common Shares equal to the product obtained by multiplying (a) the number of outstanding HBMS Special Shares exchanged by such holder on the date of exchange, by (b) the Share Exchange Rate in effect on such date.

12.02 As at the close of business on the Automatic Exchange Date, all outstanding HBMS Special Shares shall be deemed to have been exchanged for that number of Inspiration Resources Common Shares equal to the product obtained by multiplying (a) the number of outstanding HBMS Special Shares at that time, by (b) the Share Exchange Rate in effect at that time, and all holders of such HBMS Special Shares, upon surrender by such holders to the Trustee of the certificates representing such HBMS Special Shares, shall be entitled to receive in respect of each such HBMS Special Share an amount on account of all dividends to which holders of HBMS Special Shares are entitled at the close of business on the Automatic Exchange Date. All holders of HBMS Special Shares at the close of business on the Automatic Exchange Date shall be deemed to have ceased to be holders of HBMS Special Shares and shall be deemed to be holders of that number of Inspiration Resources Common Shares obtained by multiplying their respective holdings of HBMS Special Shares at that time by the Share Exchange Rate at that time provided that to the extent permitted by law, the registered holder of any HBMS Special Shares on the record date for any dividend payable on such HBMS Special Shares shall be entitled to such dividend notwithstanding that such HBMS Special Shares shall be deemed to have been so exchanged for Inspiration Resources Common Shares after such record date and before the payment date of such dividend.

SCHEDULE B

TO THE ARRANGEMENT AGREEMENT DATED AS OF MAY 14, 1983 AMONG HBMS, INSPIRATION RESOURCES AND MINORCO

1. The number of Inspiration Resources Common Shares referred to in subsection 4.01(f) of the Arrangement shall be determined as follows:

$$4,487,540 - 100 - (0.1) \times (\text{Number of HBMS Common Shares converted into HBMS Special Shares by HBMS Public Shareholders and Private Corporations}) - (0.15) \times (\text{Number of HBMS Common Shares exchanged for Inspiration Resources Common Shares owned by HBMS by HBMS Public Shareholders and Private Corporations})$$

2. The aggregate number of Inspiration Resources Common Shares and HBMS Special Shares referred to in subsection 4.01(g) of the Arrangement shall be determined in accordance with paragraph one above and the allocation of such number between Inspiration Resources Common Shares and HBMS Special Shares shall be determined by Mincan.

3. The maximum number of Inspiration Resources Common Shares referred to in clause 4.01(j) (ii) and subsection 4.02(e) of the Arrangement shall be determined as follows:

$$5,723,134 - (\text{Number of Inspiration Resources Common Shares owned by HBMS and exchanged with Private Corporations}) - (\text{Number of Inspiration Resources Common Shares owned by HBMS exchanged with Mincan})$$

**SCHEDULE C TO THE ARRANGEMENT AGREEMENT
DATED AS OF MAY 14, 1983 AMONG HBMS,
INSPIRATION RESOURCES AND MINORCO
EXCHANGE AGENCY AND TRUST AGREEMENT**

This Exchange Agency and Trust Agreement (the "Agreement") dated as of July 6, 1983
AMONG:

HUDSON BAY MINING AND SMELTING CO., LIMITED, a corporation organized and existing under the laws of Canada, having its registered office in the City of Toronto, Ontario (hereinafter called "HBMS");
—and—

INSPIRATION RESOURCES CORPORATION, a corporation organized and existing under the laws of the State of Maryland, having its registered office in the City of Baltimore, Maryland (hereinafter called "Inspiration Resources");
—and—

MONTREAL TRUST COMPANY, a corporation organized and existing under the laws of the Province of Quebec, having its head office in the City of Montreal, Quebec (hereinafter called the "Trustee").

WHEREAS, pursuant to the terms and conditions of the Arrangement Agreement dated as of May 14, 1983 among HBMS, Inspiration Resources and Minorco and the provisions of the charter of Inspiration Resources and the articles of HBMS, as amended or to be amended in contemplation of, or pursuant to, the Arrangement, the HBMS Special Shares including the HBMS Special Shares to be issued pursuant to the Arrangement, are to be exchangeable for Inspiration Resources Common Shares and, accordingly, a procedure is to be established for the exchange of such shares; and

WHEREAS, HBMS has provided pursuant to the Share Conditions certain rights to the holders of HBMS Special Shares; and

WHEREAS, Inspiration Resources has agreed to provide on behalf of HBMS certain of these rights, including without limitation, the issuance and conveyance of Inspiration Resources Trust Shares in trust for the benefit of the Holders on the terms and conditions hereof;

NOW, THEREFORE, in consideration of these premises and the mutual covenants herein set forth, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order, inter alia, (i) to provide for the exchange of HBMS Special Shares for Inspiration Resources Common Shares by the holders, from time to time, of HBMS Special Shares, and to establish the procedure for effecting such exchanges (with regard to which the Trustee shall be acting as the agent of Inspiration Resources and HBMS and not as a fiduciary for the holders of HBMS Special Shares), (ii) to create the Trust to hold the Inspiration Resources Trust Shares for the benefit of the holders of HBMS Special Shares and to declare the terms and provisions upon and subject to which the Trustee is to receive, hold, vote, administer and dispose of such shares and (iii) to provide that Inspiration Resources shall not declare dividends on the Inspiration Resources Common Shares without causing HBMS to declare a corresponding dividend on the HBMS Special Shares, the parties hereto hereby agree as follows:

**ARTICLE ONE
DEFINITIONS**

As used in this Agreement, the following terms shall have the following meanings unless the context otherwise requires:

"Affiliate" shall have the meaning set forth in the Share Conditions.

"Arrangement" means the plan of arrangement which is set forth in Schedule A to the Arrangement Agreement.

"Arrangement Agreement" means the Arrangement Agreement dated as of May 14, 1983 among HBMS, Inspiration Resources and Minorco.

"Automatic Exchange Date" shall have the meaning set forth in Section 4.10 hereof.

"Beneficiaries" shall mean the holders, from time to time, of HBMS Special Shares, excluding HBMS and Inspiration Resources and their respective Subsidiaries.

“Business Day” shall mean a day other than a Saturday, a Sunday or any other day that is a statutory holiday in the jurisdiction in which the registered office of HBMS is located.

“Canadian Dollar Equivalent” means in respect of an amount expressed in a foreign currency (the “Foreign Currency Amount”) at any date the product obtained by multiplying (a) the Foreign Currency Amount, by (b) the noon spot exchange rate on such date for such foreign currency expressed in Canadian dollars as reported by the Bank of Canada, or, in the event such a rate is not available, such rate on such date for Canadian dollars expressed in such foreign currency as may be deemed by the Board of Directors of HBMS to be appropriate for such purpose.

“Effective Date” means the date shown in the certificate of amendment of HBMS in respect of the Arrangement.

“HBMS” means Hudson Bay Mining and Smelting Co., Limited, a corporation organized and existing under the laws of Canada.

“HBMS Common Shares” mean the common shares without nominal or par value in the capital of HBMS.

“HBMS Special Shares” mean the Special, Exchangeable, Non-Voting Shares of HBMS to be outstanding as a result of the Arrangement, and shall also include any additional such shares issued thereafter, from time to time, by HBMS.

“Inspiration Resources” means Inspiration Resources Corporation, formerly known as Plateau Holdings Inc., a corporation organized and existing under the laws of the State of Maryland, and any successor corporation.

“Inspiration Resources Common Shares” shall mean the shares without par value of Inspiration Resources having voting rights of one vote per share.

“Inspiration Resources Trust Shares” shall mean the shares of Inspiration Resources having a par value of \$US0.0001 per share having voting rights of one vote per share.

“List” shall have the meaning set forth in Section 3.05 hereof.

“Mincan” means Minorco Canada Limited, a corporation organized and existing under the laws of Ontario and an indirect subsidiary of Minorco.

“Minorco” means Minerals and Resources Corporation Limited, a corporation organized and existing under the laws of Bermuda.

“Redemption Price” shall have the meaning set forth in the Share Conditions.

“Share Conditions” means the rights, privileges, restrictions and conditions attached to the HBMS Special Shares in substantially the form set forth in Exhibit I to Schedule A of the Arrangement Agreement.

“Share Exchange Rate” shall have the meaning set forth in Section 4.02 hereof.

“Subsidiary” means, in relation to one corporation, another corporation if the first corporation owns directly or indirectly 50% or more of the shares of the other corporation or exercises control or direction over 50% or more of the votes attached to the shares of the other corporation.

“Trustee” means Montreal Trust Company, a corporation organized and existing under the laws of the Province of Quebec and, subject to the provisions of Article Eleven, shall also include any successor trustee.

“Trust” shall mean the trust created by this Agreement.

“Trust Estate” shall mean the Inspiration Resources Trust Shares and any money or other property which may be held by the Trustee, from time to time, as specifically set forth in this Agreement.

“Voluntary Liquidation” shall have the meaning set forth in the Share Conditions.

ARTICLE TWO

ISSUANCE AND DEPOSIT OF INSPIRATION RESOURCES TRUST SHARES; RESERVATION AND ISSUANCE OF INSPIRATION RESOURCES COMMON SHARES

Section 2.01 Initial Issuance of Inspiration Resources Trust Shares

On the Effective Date and pursuant to the Arrangement, Inspiration Resources shall issue to the Trustee Inspiration Resources Trust Shares in a number equal to the number of HBMS Special Shares into which HBMS Common Shares are converted on the Effective Date pursuant to the Arrangement, to have and to hold such Inspiration Resources Trust Shares as part of the Trust Estate as herein provided, for the respective use and benefit of the Beneficiaries, upon and subject to the terms and conditions as hereinafter provided.

Section 2.02 Issuance of Additional Inspiration Resources Trust Shares

- (a) HBMS may, from time to time after the Effective Date, issue additional HBMS Special Shares in such amounts and upon such terms as may be determined by the Board of Directors of HBMS. In connection with, and as part of such issuance, Inspiration Resources shall issue to the Trustee, as part of the Trust Estate, Inspiration Resources Trust Shares in a number (rounded to the next lowest whole number) equal to the number of HBMS Special Shares so issued, multiplied by the Share Exchange Rate in effect on the date of such issuance, to have and to hold such Inspiration Resources Trust Shares as part of the Trust Estate, for the respective use and benefit of the Beneficiaries, upon and subject to the terms and conditions as provided herein.
- (b) In the event that at any time the number of Inspiration Resources Trust Shares held by the Trustee shall be insufficient to afford the then Beneficiaries the number of votes which such Beneficiaries are entitled to exercise pursuant to Article Three of this Agreement, Inspiration Resources shall issue to the Trustee, as part of the Trust Estate for the respective use and benefit of the Beneficiaries, upon and subject to the terms and conditions provided herein, such number of Inspiration Resources Trust Shares as shall be necessary to afford such Beneficiaries such voting rights.

Section 2.03 Deposit of Inspiration Resources Trust Shares in Trust

- (a) Subject to Article Twelve of this Agreement, all of the Inspiration Resources Trust Shares issued, from time to time, by Inspiration Resources shall be issued to and deposited with the Trustee, and the certificates representing such shares shall be held as set forth in Section 2.03(b) below. During the term of the Trust, and subject to the terms and conditions hereof, the Trustee shall possess and be vested with full legal ownership of the Inspiration Resources Trust Shares and shall be entitled to exercise all of the rights and powers of an owner with respect thereto; provided, however, that the Trustee shall at all times hold the Inspiration Resources Trust Shares and legal title thereto solely for the benefit of the Beneficiaries as set forth herein; and provided further, that, except as specifically authorized by this Agreement, the Trustee shall have no power or authority to sell, transfer, vote or otherwise deal in or with the Inspiration Resources Trust Shares, and no part of such shares shall be used or disposed of by the Trustee for any purpose other than the purposes for which this Trust is created as set forth herein.
- (b) Subject to Article Twelve hereof, the share certificates representing the Inspiration Resources Trust Shares shall at all times be held in a safe deposit or custodial account, for and on behalf of the Trustee, with a bank or trust institution situated in the State of Maryland selected by the Trustee.

Section 2.04 Reservation and Issuance of Inspiration Resources Common Shares

Inspiration Resources hereby agrees that it shall at all times reserve and keep available, free from preemptive and other rights, out of its authorized but not outstanding Inspiration Resources Common Shares, for the purpose of effecting exchanges of HBMS Special Shares, the full number of Inspiration Resources Common Shares deliverable upon the exchange of all HBMS Special Shares from time to time outstanding; and Inspiration Resources shall issue Inspiration Resources Common Shares, upon presentation to the Trustee of HBMS Special Shares for exchange, in the manner hereinafter provided.

ARTICLE THREE

VOTING OF INSPIRATION RESOURCES TRUST SHARES; DISTRIBUTION OF MATERIALS TO BENEFICIARIES

Section 3.01 Voting

Pursuant to the charter of Inspiration Resources, the Inspiration Resources Trust Shares shall have voting rights of one vote per share. Subject to this Article Three and to Article Twelve, all of the voting rights with respect to the Inspiration Resources Trust Shares shall be and remain vested in and exercisable by the Trustee, including the right to consent with respect to, or to vote in person or by proxy, all or any of such Inspiration Resources Trust Shares upon any matter, question or proposition whatsoever that may properly come before the shareholders of Inspiration Resources; provided, however, that subject to Section 3.07 hereof, the Trustee shall vote such Inspiration Resources Trust Shares held by it only to the extent that it is instructed to do so pursuant to this Article Three by the Beneficiaries then entitled to instruct the Trustee as to the voting thereof.

Section 3.02 Voting Rights of Beneficiaries

Each Beneficiary named in a List prepared in connection with any meeting of shareholders of Inspiration Resources shall be entitled (i) to instruct the Trustee (as and to the extent he so instructs the Trustee in the manner and at or prior to the time described in the notice given pursuant to Section 3.03 hereof) with respect to the voting of, or (ii) in the event that such Beneficiary has elected to attend the Inspiration Resources shareholders meeting, to attend such meeting and to vote personally thereat, as a proxy of the Trustee, the number of Inspiration Resources Trust Shares held by the Trustee equal to the number of whole Inspiration Resources Common Shares into which the HBMS Special Shares held of record by such Beneficiary, on the record date established by Inspiration Resources for purposes of determining the holders of Inspiration Resources Common Shares entitled to vote at such meeting, are exchangeable, calculated in accordance with the Share Exchange Rate in effect on such record date, and as shown opposite his name on the List.

Section 3.03 Notice of Meeting of Shareholders of Inspiration Resources

Upon receipt by the Trustee of notice of a meeting of the shareholders of Inspiration Resources, the Trustee shall distribute or cause to be distributed by prepaid ordinary mail to each of the Beneficiaries specified in the List provided by HBMS to the Trustee pursuant to Section 3.05, as soon as practicable but in no event later than 3 Business Days after the receipt of such List:

- (a) a copy of such notice, together with any related materials received from Inspiration Resources by the Trustee;
- (b) a statement that such Beneficiary is entitled to instruct the Trustee as to the exercise of the voting rights pertaining to, or, to attend such meeting of shareholders and to personally vote, the number of Inspiration Resources Trust Shares relating to such Beneficiary determined in accordance with Section 3.02 hereof, which number shall be specified in such statement,
- (c) a description of the manner in which such voting instructions may be given, including a statement to the effect that instructions may be given to the Trustee to give:
 - (i) a proxy to such Beneficiary to vote personally at the meeting such number of Inspiration Resources Trust Shares as to which such Beneficiary is entitled to instruct the Trustee to vote, or
 - (ii) a proxy to a designated agent or other representative of the management of Inspiration Resources to vote such Inspiration Resources Trust Shares,
- (d) a statement of the time and date by which such instructions must be received by the Trustee in order to be binding upon it, which in all cases shall not be earlier than the close of business on the Business Day prior to such meeting, and of the method for revoking or amending such instructions; and
- (e) a form of direction pursuant to which the Beneficiaries may so direct and instruct the Trustee.

Section 3.04 Proxy and Other Materials

Inspiration Resources shall deliver to the Trustee promptly, and in no event later than the date on which the same are sent to holders of Inspiration Resources Common Shares, copies of all proxy materials (including notices of meetings of shareholders but not proxies to vote Inspiration Resources Common Shares), information statements, reports and other written communications which are sent to holders of Inspiration Resources Common Shares in sufficient quantities for the Trustee to deliver one copy of the same to each Beneficiary. The Trustee shall make available for inspection by any Beneficiary at its principal corporate trust offices in the cities of Montreal, Toronto, Winnipeg, Calgary and Vancouver, any and all proxy or information statements, reports or other communications received from Inspiration Resources which are:

- (a) both
 - (i) received by the Trustee as the holder of the Inspiration Resources Trust Shares or otherwise pursuant to this Section, and
 - (ii) distributed or publicly made available by Inspiration Resources to the holders of Inspiration Resources Common Shares, or

(b) specifically directed to the Beneficiaries.

The Trustee shall also promptly send to each holder of HBMS Special Shares specified in the List provided by HBMS to the Trustee pursuant to Section 3.05 hereof copies of such materials received by the Trustee from Inspiration Resources. The Trustee is hereby authorized, but except as otherwise expressly provided herein shall not be required, to send other and additional materials to the Beneficiaries.

Section 3.05 Preparation of List of Holders of HBMS Special Shares

HBMS shall, (a) prior to each annual meeting of shareholders of Inspiration Resources and (b) forthwith upon (i) the calling of each special meeting of shareholders of Inspiration Resources, (ii) each distribution of reports or communication to the holders of Inspiration Resources Common Shares or (iii) each request made at any time by the Trustee in writing, prepare or cause to be prepared a list (each such list from time to time prepared is herein referred to as a "List") of the names and addresses of all of the registered holders of HBMS Special Shares, arranged in alphabetical order by name, and showing the number of the HBMS Special Shares held by each such shareholder, in each case as of the close of business on the date specified by the Trustee in such request or, in the case of a List prepared in connection with a meeting of shareholders of Inspiration Resources, as of the close of business on the record date established by Inspiration Resources or pursuant to applicable law for determining the holders of Inspiration Resources Common Shares entitled to vote at such meeting, or, in the case of any List prepared in connection with a distribution of reports or communications to the holders of Inspiration Resources Common Shares, as of the date such holders have been determined, which List shall be delivered to the Trustee within 5 Business Days after receipt by HBMS of such request, or the date of such distribution, or the record date for such meeting, as the case may be. Upon receipt of any List prepared in connection with a meeting of shareholders, the Trustee shall insert thereon the number of the Inspiration Resources Trust Shares held by the Trustee, that each holder listed thereon is entitled to instruct the Trustee as to the exercise of the voting rights pertaining thereto. In order to enable HBMS to perform its obligations under this Section 3.05, Inspiration Resources agrees to give HBMS notice of the calling of any meeting of its shareholders or any distribution of reports or communications to the holders of Inspiration Resources Common Shares, together with the relevant record dates therefor, a reasonable time prior to the date of the calling of such meeting or the date of such distribution.

Section 3.06 Voting by Trustee, and Attendance of Trustee Representative, at Meeting

- (a) In connection with any meeting of shareholders of Inspiration Resources, the Trustee shall vote, either in person or by proxy, in accordance with the instructions received from a Beneficiary pursuant to Section 3.03, the number of Inspiration Resources Trust Shares as to which such Beneficiary is entitled to direct the vote (or any lesser number of such shares as set forth in the instructions); provided, that such written instructions are received by the Trustee prior to the time and date fixed by it for receipt of such instructions in the notice given pursuant to Section 3.03.
- (b) The Trustee shall cause to attend each meeting of shareholders of Inspiration Resources a representative who is empowered by it to sign and deliver, on behalf of the Trustee, proxies for Inspiration Resources Trust Shares. Upon submission by a Beneficiary of identification satisfactory to the Trustee's representative and at the Beneficiary's request, such representative shall sign and deliver to such Beneficiary a proxy to vote personally the number of Inspiration Resources Trust Shares as to which such Beneficiary is otherwise entitled hereunder to instruct the Trustee to vote, if such Beneficiary has either (i) not previously given the Trustee instructions pursuant to Section 3.03 in respect of such meeting, or (ii) submits to such representative written revocation of any such previous instructions.

On matters with regard to voting, the Trustee shall apply the principles relating to voting of shares contained in the Maryland General Corporation Law.

Section 3.07 Conflicts in Ownership

If conflicting claims or demands are made or asserted with respect to any interest of any Beneficiaries in Inspiration Resources Trust Shares, including any disagreement between the heirs, representatives, successors or assigns succeeding to all or any part of the interest of any Beneficiary in Inspiration Resources Trust Shares resulting in conflicting claims or demands being made in connection with such interest, then the Trustee shall be entitled, at its sole election, to refuse to recognize or to comply with any such claim or demand. In so refusing, the Trustee may elect not to exercise any voting rights with respect to the Inspiration Resources Trust Shares subject to such conflicting claims or demands or not to make a payment or distribution, if any, in respect of such Inspiration Resources Trust Shares and, in so doing, the Trustee shall not be or become liable to any person on account of such

election or its failure or refusal to comply with any such conflicting claims or demands. The Trustee shall be entitled to continue to refrain from acting and to refuse to act until the rights or differences of all claimants with respect to the Inspiration Resources Trust Shares subject to such conflicting claims or demands have been (a) adjudicated by a final judgment of a court of competent jurisdiction or (b) conclusively settled by valid written agreement binding on all such claimants, and the Trustee shall have been furnished with an executed copy of such judgment or agreement and such further indemnification and assurances as it may reasonably request. If, prior thereto, the Trustee shall elect to recognize any claim or comply with any demand made by any such claimant, it may in its discretion require such claimant to furnish such surety bond or other security satisfactory to the Trustee as it shall deem appropriate to fully indemnify it as against all conflicting claims or demands.

Section 3.08 Distributions

Notwithstanding the fact that the Inspiration Resources Trust Shares, by their terms, are not entitled to participate in any dividends of Inspiration Resources, in the event that the Trustee shall receive any cash distribution by Inspiration Resources on account of any Inspiration Resources Trust Shares then held by the Trustee pursuant to this Agreement, the Trustee shall apply such amounts to the payment of its compensation, and reimbursement of its expenses incurred, hereunder. Any surplus then remaining shall be paid by the Trustee to Inspiration Resources.

Section 3.09 Termination of Voting Rights

All of the rights of a holder of HBMS Special Shares with respect to the related Inspiration Resources Trust Shares, including the right to instruct the Trustee as to the voting of, or to vote personally, such Inspiration Resources Trust Shares, shall be deemed to be surrendered and shall cease immediately upon the delivery by such holder to the Trustee of the certificates representing such HBMS Special Shares and a request for exchange thereof, as specified in Section 4.03 hereof, or upon the Automatic Exchange Date or upon the redemption of HBMS Special Shares pursuant to Sections 7.01 and 7.02 of the Share Conditions or upon the effective date of the liquidation of HBMS, as referred to in Sections 9.01 and 9.02 of the Share Conditions; provided, however, that in the event that such holder shall have exchanged such HBMS Special Shares after the record date for, but prior to, any meeting of stockholders of Inspiration Resources, such holder shall be entitled to instruct the Trustee to vote, or to vote personally, at that particular meeting, the Inspiration Resources Trust Shares that had appertained to the HBMS Special Shares held of record by such holder on such record date.

Section 3.10 Legend on Certificates Representing HBMS Special Shares

HBMS shall use its best efforts to cause each certificate representing HBMS Special Shares to bear an appropriate legend to the effect that the holder thereof has certain rights in respect of the Trust, including voting rights in respect of Inspiration Resources Trust Shares and the right to exchange, through the Trustee, the HBMS Special Shares represented by such certificate for Inspiration Resources Common Shares, pursuant to the terms and conditions of this Agreement, and that a copy of this Agreement is available for inspection at the registered office of HBMS.

Section 3.11 Redemption of Inspiration Resources Trust Shares

- (a) The Trustee acknowledges that the Inspiration Resources Trust Shares are redeemable, in whole or in part, at any time by Inspiration Resources and agrees to surrender the Inspiration Resources Trust Shares, or any portion thereof, to Inspiration Resources upon demand, for the amount of \$US0.0001 per Inspiration Resources Trust Share so redeemed; provided, however, that Inspiration Resources shall not redeem any of the Inspiration Resources Trust Shares, and the Trustee shall not be obligated to comply with a demand for any such redemption, to the extent that the number of Inspiration Resources Trust Shares remaining with the Trustee after such redemption would be less than the number of Inspiration Resources Common Shares for which the outstanding HBMS Special Shares are then exchangeable.
- (b) In the event of any distribution of the Inspiration Resources Trust Shares pursuant to Article Twelve of this Agreement, Inspiration Resources shall not thereafter redeem any Inspiration Resources Trust Shares except that, upon the exchange pursuant to this Agreement of any HBMS Special Shares for Inspiration Resources Common Shares, the Inspiration Resources Trust Shares appertaining to such exchanged HBMS Special Shares may be redeemed.

Section 3.12 Maintenance of Voting Rights

Inspiration Resources agrees that it shall take no action which shall change the voting rights per share of the Inspiration Resources Common Shares or the Inspiration Resources Trust Shares without identically changing the voting rights per share of the Inspiration Resources Trust Shares or the Inspiration Resources Common Shares, respectively.

ARTICLE FOUR

EXCHANGE OF HBMS SPECIAL SHARES

Section 4.01 Exchange Privilege

Subject to the terms and conditions hereinafter set forth, the holders from time to time of HBMS Special Shares shall have the right to exchange such shares through the Trustee for Inspiration Resources Common Shares at the Share Exchange Rate applicable on the effective date of exchange determined pursuant to Section 4.07 hereof. In performing its duties under this Article Four, the Trustee shall be acting as the agent of Inspiration Resources and HBMS and not as a fiduciary for the holders of HBMS Special Shares.

Section 4.02 Share Exchange Rate

As used herein, the term “Share Exchange Rate” shall mean the rate at which Inspiration Resources Common Shares (or, in certain circumstances set out in the Share Conditions, other securities or property) will be exchanged for HBMS Special Shares, which rate, subject to adjustment from time to time in accordance with Article Five hereof, shall initially be one Inspiration Resources Common Share in exchange for each HBMS Special Share.

Section 4.03 Exchange Instructions

Subject to the terms and conditions herein and in the Share Conditions, a holder of HBMS Special Shares shall be entitled to exchange at any time, or from time to time, all or any of the HBMS Special Shares registered in the name of such holder on the books of HBMS, for Inspiration Resources Common Shares, upon delivery to the Trustee, in person or by certified or registered mail, at its principal corporate trust office in Toronto or at such other places in Canada or the United States as the Trustee may from time to time designate by written notice to the holders of HBMS Special Shares, of the certificates representing the HBMS Special Shares which the holder desires to exchange for Inspiration Resources Common Shares, duly endorsed in blank, and accompanied by such instruments of transfer, in form satisfactory to the Trustee, as the Trustee may require together with (a) a duly completed form of election to exchange, contained on the reverse of, or attached to, the HBMS Special Share certificates stating (i) that such election to exchange has been made and specifying the number of HBMS Special Shares as to which such election is made, (ii) that such holder has good title to, and owns, the HBMS Special Shares to be exchanged free and clear of all liens, claims and encumbrances, (iii) the names in which the certificates representing the Inspiration Resources Common Shares issuable upon such exchange are to be issued, (iv) if such election to exchange covers less than all of the HBMS Special Shares represented by the certificates so delivered to the Trustee, the names in which the certificates representing the remaining HBMS Special Shares are to be issued and (v) the names and addresses of the persons to whom such new certificates should be delivered and (b) payment (or evidence satisfactory to the Trustee, HBMS and Inspiration Resources of payment) of the taxes (if any) payable pursuant to Section 4.06 of this Agreement.

Section 4.04 Delivery of Inspiration Resources Common Shares Upon Exchange; Effect of Election

As promptly as practicable after receipt of the certificates representing HBMS Special Shares duly endorsed for Exchange (and payment of taxes, if any, or evidence thereof) pursuant to, and in compliance with, this Article Four, the Trustee shall notify Inspiration Resources and HBMS of its receipt of the same and Inspiration Resources shall deliver, or cause to be delivered, to the Trustee, for delivery to the holder making such election to exchange (or to such other persons, if any, properly designated by such holder) (a) the certificates for the number of Inspiration Resources Common Shares issuable upon such exchange, which shares shall be duly issued as fully paid and non-assessable and be free and clear of any lien, claim or encumbrance and (b) in the case of any partial exercise of the election to exchange, the certificates representing the HBMS Special Shares as to which such election has not been made; provided, however, that no such delivery shall be made unless and until the holder requesting the same shall have paid (or provided evidence satisfactory to the Trustee, HBMS and Inspiration Resources of the payment of) the taxes (if any) payable pursuant to Section 4.06 of this Agreement. Upon the exercise of the election to exchange as provided in Section 4.03 hereof, the holder of the HBMS Special Shares covered thereby shall be deemed to have transferred to Inspiration Resources all of his right, title and interest to such HBMS Special Shares and in the related interest in the Trust Estate, including the related Inspiration Resources Trust Shares. Inspiration Resources may at any time thereafter require the transfer of such HBMS Special Shares and Inspiration Resources Trust Shares or of any Inspiration Resources Trust Shares related to such HBMS Special Shares otherwise acquired by it, to it or its designee, by the Trustee.

Section 4.05 Right to Dividends

To the extent permitted by law, the registered holder of any HBMS Special Shares on the record date for any dividend payable on such HBMS Special Shares shall be entitled to such dividend notwithstanding the fact that such HBMS Special Shares shall have been exchanged for Inspiration Resources Common Shares after such record date and before the payment date of such dividend. Subject to the foregoing, upon the exchange of any HBMS Special Shares there shall be no adjustment by HBMS, by Inspiration Resources or by any holder of HBMS Special Shares on account of any dividends on any HBMS Special Shares so exchanged, provided that this provision shall not remove the obligation of Inspiration Resources to pay a dividend pursuant to Section 6.03 to any holder of HBMS Special Shares exchanging such shares for Inspiration Resources Common Shares.

Section 4.06 Stamp or Other Transfer Taxes

Upon any exchange of HBMS Special Shares, the share certificate or certificates representing the Inspiration Resources Common Shares exchangeable therefore and, in the case of any partial exercise of the election to exchange, the certificates representing the HBMS Special Shares as to which such election has not been made, shall be issued in the name of the holder of the HBMS Special Shares exchanged or in such names as such holder may otherwise direct in writing in the Form of Election to Exchange referred to in Section 4.03 hereof, without charge to the holder of the HBMS Special Shares so exchanged, provided, however, that such exchanging holder (i) shall pay (and neither Inspiration Resources, HBMS nor the Trustee shall be required to pay) any documentary, stamp, transfer or other taxes that may be payable in respect of any transfer involved in the issuance or delivery of such shares to a person other than such holder or (ii) shall have established to the satisfaction of the Trustee, Inspiration Resources and HBMS that such taxes, if any, have been paid.

Section 4.07 Date of Exchange

Except as otherwise provided in Sections 4.10, 4.11 and 4.13 hereof, the right of a holder of HBMS Special Shares to exchange the same for Inspiration Resources Common Shares shall be deemed to have been exercised, and the holder of the HBMS Special Shares to be exchanged (or any persons in whose names such holder of HBMS Special Shares shall have directed certificates representing Inspiration Resources Common Shares be issued as provided in Section 4.03 hereof) shall be deemed to have become a holder of such Inspiration Resources Common Shares for all purposes, on the final date of receipt by the Trustee of the materials and payments (if any) required by, and in compliance with, Section 4.03, notwithstanding any delay in the delivery of the certificates representing the Inspiration Resources Common Shares for which such HBMS Special Shares have been exchanged.

Section 4.08 Fractional Shares

Inspiration Resources shall not issue fractional Inspiration Resources Common Shares in satisfaction of the exchange rights herein provided but in lieu thereof shall pay a cash adjustment in U.S. dollars. The amount of any cash adjustment paid on account of a fractional interest in an Inspiration Resources Common Share shall equal the same fraction of the last round lot sale price (or average of the bid and asked prices if there were no sales) per Inspiration Resources Common Share on the Business Day first preceding the date of the particular exercise of exchange rights determined as set forth in Section 4.07 hereof (or if there were no sales, on the next preceding Business Day on which such a last round lot sales price on the Inspiration Resources Common Shares was quoted), on the principal stock exchange or other securities market on which said shares were traded. If in the opinion of the Board of Directors of Inspiration Resources, a sufficient market for Inspiration Resources Common Shares does not exist to make the above determination, the Board of Directors shall determine the amount of such cash adjustment and so advise the Trustee.

Section 4.09 Registration of Inspiration Resources Common Shares

Inspiration Resources covenants that, if any Inspiration Resources Common Shares required to be reserved for purposes of issuance upon exercise of the exchange right appertaining to the HBMS Special Shares hereunder require registration with or approval of any governmental authority under any U.S. federal or state law, or any Canadian federal or provincial law, or listing on any national securities exchange, before such shares may be issued

upon exercise of such exchange right or freely traded thereafter in the United States and Canada, Inspiration Resources will in good faith and as expeditiously as possible endeavour to cause such shares to be duly registered, or approved or listed on the relevant national securities exchange, as the case may be, and, in such event, Inspiration Resources is hereby authorized to suspend for a maximum of 90 consecutive days the delivery of Inspiration Resources Common Shares in exchange for HBMS Special Shares, during which period Inspiration Resources shall endeavor to obtain such registration, approval or listing. On or before the earlier of the date of the final receipt issued by the Ontario Securities Commission for a prospectus of HBMS relating to a public issue of HBMS Special Shares and the date which is 75 days after the Effective Date, Inspiration Resources shall have filed all documents necessary to become a reporting issuer under the Securities Act (Ontario) and shall use its best efforts to maintain such status until such time as there are no issued and outstanding HBMS Special Shares held by HBMS Public Shareholders.

Section 4.10 Exchange of HBMS Special Shares on Automatic Exchange Date

On the earlier of (i) the last date on which a holder of Inspiration Resources Common Shares is entitled to fully participate in the liquidation, dissolution or winding up of Inspiration Resources or any other distribution of the assets of Inspiration Resources among its shareholders for the purpose of winding up its affairs, or (ii) July 6, 1993, unless such date shall be extended at any time or from time to time to a later date by the Board of Directors of HBMS in accordance with the Share Conditions (upon notice given by the Trustee to the registered holders of HBMS Special Shares at least 45 Business Days prior to July 6, 1993 or such other extended date, provided that accidental failure or omission to give any such notice to less than 10% of such holders shall not affect the validity of such extension), in which case such later date (the earlier of the dates referred to in (i) or (ii) above being the “Automatic Exchange Date”), each outstanding HBMS Special Share shall be deemed to be automatically exchanged for Inspiration Resources Common Shares at the Share Exchange Rate in effect on the Automatic Exchange Date. The Trustee shall give written notice of the automatic exchange not less than 30 Business Days prior to the Automatic Exchange Date then in effect to the holders of record of HBMS Special Shares as of a date within 5 Business Days of the date of the giving of such notice. As of the close of business on the Automatic Exchange Date, all outstanding HBMS Special Shares shall be deemed to have been exchanged for that number of Inspiration Resources Common Shares equal to the product obtained by multiplying (a) the number of outstanding HBMS Special Shares at that time by (b) the Share Exchange Rate at that time, and all holders of HBMS Special Shares shall cease to have any (and, shall be deemed to have transferred to Inspiration Resources) all right, title or interest in such HBMS Special Shares and in the Trust Estate except the right to be registered (or to designate another or others to be registered) as a holder of such Inspiration Resources Common Shares and to receive (or to designate another recipient of) certificates representing such shares in exchange for such HBMS Special Shares as soon as practicable after the surrender to the Trustee of the certificates representing such HBMS Special Shares, together with the materials and payments (if any) in compliance with, and as required by, Section 4.03 hereof for exchanges made at the election of holders of HBMS Special Shares.

Section 4.11 Redemption of HBMS Special Shares

If at any time HBMS is entitled to redeem the whole or any part of the then outstanding HBMS Special Shares on payment of the Redemption Price pursuant to, and in accordance with, Sections 7.01 or 7.02 of the Share Conditions and, in the event that HBMS elects to satisfy its obligation thereunder to pay the share portion of the Redemption Price in Inspiration Resources Common Shares, Inspiration Resources shall cause to be provided to HBMS the Inspiration Resources Common Shares in satisfaction of such obligation. In consideration thereof, Inspiration Resources may at any time after an effective date of redemption of HBMS Special Shares in which the share portion of the Redemption Price consists of Inspiration Resources Common Shares require the issuance to Inspiration Resources by HBMS of the number of HBMS Special Shares equal to the number of HBMS Special Shares redeemed.

Section 4.12 Transfer of Shares

Inspiration Resources may, at any time after the Automatic Exchange Date, require the transfer of the HBMS Special Shares thereby exchanged together with the Inspiration Resources Trust Shares appertaining to such HBMS Special Shares, to it or its designee by the Trustee.

Section 4.13 Liquidation of HBMS

In the event that HBMS elects to satisfy the share portion of its obligations under the provisions of Sections 9.01 and 9.02 of the Share Conditions in Inspiration Resources Common Shares, Inspiration Resources shall issue, or cause to be provided to HBMS the Inspiration Resources Common Shares in satisfaction of such obligation.

ARTICLE FIVE

ADJUSTMENTS TO SHARE EXCHANGE RATE

Section 5.01 Adjustments

The Share Exchange Rate shall be subject to adjustment from time to time in accordance with, and pursuant to, the provisions of Section 5 of the Share Conditions. In the event that any transaction is proposed that would result in an adjustment to the Share Exchange Rate such that securities or property of any other entity would be distributed to the holders of HBMS Special Shares upon the exchange of such HBMS Special Shares pursuant to the Share Conditions, Inspiration Resources shall not effect such transaction unless such other entity shall agree in a binding and enforceable manner to comply with the requirements of this Agreement and the Share Conditions to fully preserve the rights of the HBMS Special Shareholders.

Section 5.02 Certificate of Adjustment

Forthwith after the occurrence of any adjustment in the Share Exchange Rate pursuant to Section 5 of the Share Conditions, Inspiration Resources shall file with the Trustee a certificate, prepared by its chief financial or accounting officer, setting forth the adjusted Share Exchange Rate and shall give written notice to HBMS and the holders of HBMS Special Shares of such adjusted Share Exchange Rate.

Section 5.03 Prior Notification of Record Date or Effective Date

Inspiration Resources shall, at least 21 days prior to the effective date or record date, as the case may be, of any event (other than the subdivision or consolidation of the outstanding Inspiration Resources Common Shares) which requires, might require or would, but for the provisions of paragraph 5.04(c) of the Share Conditions, require an adjustment in the Share Exchange Rate, (a) file with the Trustee a certificate specifying the particulars of such event and, if determinable, the required adjustment in the Share Exchange Rate and the computation of such adjustment; and (b) give notice to HBMS and to the holders of the outstanding HBMS Special Shares of the particulars of such event and, if determinable, the required adjustment in the Share Exchange Rate. In case any adjustment in the Share Exchange Rate for which the aforementioned notice has been given is not then determinable, Inspiration Resources shall:

- (a) file with the Trustee a computation of such adjustment; and
- (b) give notice to the holders of the HBMS Special Shares,

promptly after such adjustment is determinable. Inspiration Resources shall, in any event, give notice to the holders of HBMS Special Shares forthwith after the occurrence of any adjustment in the Share Exchange Rate pursuant to Section 5 of the Share Conditions and shall give notice to HBMS immediately upon taking any other action which would affect the Inspiration Resources Common Shares.

Section 5.04 Limitations on Adjustment Events

Inspiration Resources hereby agrees not to fix the effective date or record date, as the case may be, of any event which shall result in or require an adjustment in the Share Exchange Rate (a) during the period between the date of declaration of a dividend on the Inspiration Resources Common Shares and the date established by the Board of Directors of HBMS for purposes of determining shareholders entitled to receive the corresponding dividend on the HBMS Special Shares, or (b) during the 21-day period immediately preceeding a Voluntary Liquidation of HBMS or any other liquidation, dissolution or winding-up of HBMS.

ARTICLE SIX

PAYMENT AND GUARANTEE OF DIVIDENDS AND LIQUIDATION AMOUNT

Section 6.01 Payment of Dividends on Inspiration Resources Common Shares and Corresponding Dividend on HBMS Special Shares

Inspiration Resources hereby agrees for the benefit of the holders, from time to time, of HBMS Special Shares not to declare and pay any dividends on the Inspiration Resources Common Shares unless it shall also cause HBMS to declare and pay a corresponding dividend on the HBMS Special Shares, payable at the same time and in the same manner as the dividends declared on the Inspiration Resources Common Shares, in accordance with Section 4 of the Share Conditions. Such corresponding dividend (a) in the case of a cash dividend on the Inspiration Resources Common Shares shall be in an amount for each outstanding HBMS Special Share equal to the product obtained by multiplying (i) the Share Exchange Rate in effect on the date such dividend is declared by the Board of Directors of HBMS by (ii) the Canadian Dollar Equivalent on the date of declaration of such dividend of the dividend declared on each Inspiration Resources Common Share or (b) in the case of a stock dividend on the Inspiration Resources Common Shares paid in Inspiration Resources Common Shares, shall be in such number of HBMS Special Shares for each outstanding HBMS Special Share equal to the number of Inspiration Resources Common Shares distributed with respect to each Inspiration Resources Common Share outstanding.

Section 6.02 Guarantee of Dividends and Liquidation Amount

So long as any HBMS Special Shares are outstanding, Inspiration Resources agrees, for the benefit of the holders of HBMS Special Shares, to provide or cause to be provided to HBMS such funds or property (the “Funds”) as may be necessary in order that HBMS will be in a financial position to permit:

- (a) the lawful and timely declaration and the due and punctual payment of all dividends payable on the HBMS Special Shares in accordance with the Share Conditions; and
- (b) the lawful and timely distribution and due and punctual payment or satisfaction of all amounts payable to the holders of HBMS Special Shares upon a Voluntary Liquidation as provided in the Share Conditions; provided, however, that, subject to Section 6.03, the obligation of Inspiration Resources to provide Funds to HBMS for the purpose of making such a distribution shall be satisfied in full if upon such Voluntary Liquidation, Inspiration Resources issues to each of the holders of HBMS Special Shares the number (rounded to the next lowest whole number) of Inspiration Resources Common Shares into which his HBMS Special Shares are exchangeable at the Share Exchange Rate in effect on the date which is 21 days prior to the effective date of such Voluntary Liquidation, upon surrender by such holder to the Trustee of the certificates representing such HBMS Special Shares.

Section 6.03 Dividends—Automatic Exchanges and Redemptions

In connection with an exchange of HBMS Special Shares for Inspiration Resources Common Shares pursuant to the provisions of Sections 7.01, 7.02, 9.01, 9.02 or 12.02 of the Share Conditions or Section 6.02 of this Agreement, Inspiration Resources shall pay to each holder of any such exchanged HBMS Special Shares an amount equal to all unpaid dividends on such HBMS Special Shares to which such holder is then entitled pursuant to the Share Conditions.

Section 6.04 Right to Sue

Without prejudice to the rights of holders of HBMS Special Shares arising under this Agreement, should Inspiration Resources fail to perform its covenants and agreements under this Agreement, any registered holder of HBMS Special Shares shall be entitled to initiate all proceedings necessary to enforce the performance of the obligations of Inspiration Resources under this Agreement.

ARTICLE SEVEN

DUTIES OF TRUSTEE

Section 7.01 Limitation of Powers and Duties of Trustee

The powers, duties and authorities of the Trustee, in its capacity as trustee of the Trust, are limited to holding title to the Trust Estate, voting the Inspiration Resources Trust Shares in accordance with the provisions of this Agreement and granting proxies and distributing materials to Beneficiaries as provided in this Agreement. In acting as exchange agent pursuant to this Agreement, the Trustee’s agency is limited to receiving from the holders of HBMS Special Shares, in connection with the exchange procedure contemplated by Article Four hereof, HBMS Special Shares and other requisite exchange documents and monies, and distributing to the holders, from time to time, of HBMS Special Shares, the Inspiration Resources Common Shares (and, in the case of a distribution of the Inspiration Resources Trust Shares pursuant to Article Twelve hereof, such Inspiration Resources Trust Shares distributable pursuant to Article Twelve) to which such holders are entitled, all as provided herein. However, in the exercise of such power and authority and the discharge of such duties, or agency, as the case may be, the Trustee shall have, and is hereby granted, such incidental powers and authority not in conflict with any of the provisions hereof as may be necessary, appropriate or desirable to effect the purposes of the Trust or agency. The Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the rights or powers conferred upon it by this Agreement.

Section 7.02 No Obligation to Exercise Rights

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request, order or direction of any holder of HBMS Special Shares (except for the exercise of its power to vote the Inspiration Resources Trust Shares pursuant to Article Three hereof and the exercise of its duties pursuant to the exchange procedure established pursuant to Article Four hereof, including the delivery of HBMS Special Shares surrendered for exchange and the related Inspiration Resources Trust Shares to HBMS or Inspiration Resources pursuant to Section 4.04 hereof) unless such holder shall have furnished to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

Section 7.03 Books and Records

The Trustee shall preserve and keep available for inspection by Inspiration Resources and HBMS, at its principal corporate trust office in the city of Toronto, correct and complete books and records of account relating to the Trust created hereby and its agency hereunder including, without limitation, all data related to mailings and instructions to and from holders of HBMS Special Shares and any exchange transactions pursuant to Article Four hereof.

Section 7.04 No Bond Required

No bond shall be required of the Trustee and no successor trustee appointed hereunder shall be required to furnish a bond.

Section 7.05 Loss in Trust Estate

The Trustee shall not be held liable for any loss which may occur by reason of depreciation in the value of any part of the Trust Estate, except to the extent that such loss is attributable to negligence, wilful misconduct or bad faith on the part of the Trustee.

Section 7.06 Report by Trustee

On or before June 30, 1984, and on or before June 30 in every year thereafter, so long as any Inspiration Resources Trust Shares are on deposit with the Trustee, the Trustee shall transmit to Inspiration Resources and HBMS a report, dated as of the preceding December 31, with respect to: (a) the property and funds comprising the Trust Estate as of such date, (b) the number of exchanges and the aggregate number of HBMS Special Shares so exchanged for Inspiration Resources Common Shares by the Trustee on behalf of holders of HBMS Special Shares during the calendar year ended on such date, and (c) any action taken by the Trustee in the performance of its duties under this Agreement which it has not previously reported and, which in the Trustee's opinion, materially affects the Trust Estate. In addition, the Trustee shall promptly transmit to the holders of HBMS Special Shares a report concerning the occurrence of any event which, in the Trustee's opinion, materially affects the Trust Estate.

Section 7.07 Income Tax Returns for Trust

The Trustee shall, to the extent necessary, prepare and file on behalf of the Trust appropriate United States and Canadian income tax returns and any other returns or reports as may be required by applicable law or pursuant to the rules and regulations of any securities exchange or other trading system through which HBMS Special Shares are traded.

ARTICLE EIGHT

ACCEPTANCE OF TRUST

Section 8.01 Acceptance of Trust

The Trustee hereby accepts the Trust and assumes the duties hereby created and imposed upon it in respect of the Trust, subject to the following terms and conditions:

- (a) The Trustee shall not be liable for any action (including, without limitation, the voting of the Inspiration Resources Trust Shares deposited hereunder) taken or omitted to be taken by it hereunder or in connection herewith, except for its own negligence, wilful misconduct or bad faith.

- (b) The Trustee may consult with legal counsel, who may be legal counsel for Inspiration Resources or HBMS, and the written advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted to be taken by the Trustee hereunder in good faith and in reliance thereon.
- (c) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed with due care by it hereunder.
- (d) The Trustee may own shares or the securities (including evidences of indebtedness) of Inspiration Resources or HBMS to the same extent and in the same manner as though it were not the Trustee hereunder. The Trustee shall not be disqualified from acting as registrar, transfer agent, paying agent or in any fiduciary capacity for, or from engaging in customary business and banking activities for or with, any holder of HBMS Special Shares, Inspiration Resources or HBMS.
- (e) The Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any instruction, advice, notice, opinion or other document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties and, subject to subsections (a) and (b) of this Section 8.01, shall be under no liability with respect to any action taken or omitted to be taken in accordance with such instruction, advice, notice, opinion or other document.
- (f) The Trustee shall not be required to exercise any of the rights and powers vested in it hereby which would violate any applicable law or which in its reasonable judgment would involve it in any expense or liability, including, without limitation, the payment of any taxes (other than taxes payable in respect of compensation or reimbursement of fees paid or payable to the Trustee hereunder) unless it shall have been furnished with reasonable security or indemnity against such expenses and liabilities which might be incurred by it in exercising any such rights or powers and HBMS and Inspiration Resources jointly and severally undertake and agree to provide such security and indemnity as may be required.
- (g) The Trustee undertakes to perform such duties and only such duties as are set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Trustee.
- (h) The Trustee may treat the person in whose name any HBMS Special Shares are registered as the owner of such shares for all purposes whatsoever.
- (i) The Trustee may at any time request written instructions from Inspiration Resources or HBMS with respect to the interpretation of this Agreement or any action to be taken or suffered or not taken hereunder and shall be entitled to withhold action hereunder until it shall have received such written instructions from Inspiration Resources or HBMS.
- (j) The Trustee shall not be bound to make any investigation into the facts or matters stated in any instruction, advice, notice, opinion or other document, but the Trustee, in its discretion, may make further inquiry or investigation into such facts or matters as it may see fit.

ARTICLE NINE

COMPENSATION FOR SERVICES

Section 9.01 Compensation

Inspiration Resources and HBMS jointly and severally agree, to the extent the monies in the Trust Estate are insufficient for purposes of the payment of the compensation and reimbursement referred to herein, to pay the Trustee reasonable compensation for all of the services rendered by it hereunder and shall reimburse the Trustee for all expenses and disbursements, including the cost and expense of any mailings to the holders of HBMS Special Shares and the cost and expense of any suit or litigation of any character, including any proceedings before any governmental agency, reasonably incurred by the Trustee in connection with its duties under this Agreement, but excluding expenses and disbursements paid, incurred or suffered by the Trustee in any suit or litigation in which the Trustee is determined to have acted in bad faith or with gross negligence or wilful misconduct.

ARTICLE TEN

INDEMNIFICATION

Section 10.01 Indemnity

Inspiration Resources and HBMS jointly and severally agree to indemnify and hold harmless the Trustee, and each director, officer and agent thereof, against all claims, losses, damages, costs, penalties, fines and expenses (including reasonable expenses of Trustee's legal counsel) which, without negligence, wilful misconduct or bad faith on the part of the Trustee, may be paid, incurred or suffered by the Trustee by reason of or as a result of the Trustee's acceptance or administration of the Trust or by reason of or as a result of its compliance with its duties set forth herein or with any written or oral instructions delivered to the Trustee pursuant hereto. In no case shall Inspiration Resources or HBMS be liable under this indemnity with respect to any claim against the Trustee unless Inspiration Resources and HBMS shall be notified by the Trustee, by letter or by cable or telex confirmed by letter, of the assertion of a claim against the Trustee or of any action commenced against the Trustee, not later than 2 Business Days after the Trustee shall have received any such assertion of a claim or shall have been served with a summons or other first legal process giving notice of the claim. Inspiration Resources and HBMS shall be entitled to participate at their own expense in the defense, and if Inspiration Resources or HBMS so elects at any time after receipt of such notice, either of them may assume the defense, of any such claim. In the event that Inspiration Resources or HBMS assumes such defense, neither Inspiration Resources nor HBMS shall be liable for the fees and expenses of any additional counsel thereafter retained by the Trustee.

ARTICLE ELEVEN

RESIGNATION AND REMOVAL OF TRUSTEE

Section 11.01 Resignation

The Trustee, or any trustee hereafter appointed, may at any time resign by giving written notice thereof to Inspiration Resources and HBMS, specifying the date on which its desired resignation shall become effective, provided that such notice shall not be given less than 30 Business Days prior to such desired effective date unless Inspiration Resources and HBMS otherwise agree. Such resignation shall take effect upon the later of (a) the stated effective date of resignation or (b) the date of the appointment of a successor trustee and the acceptance of such appointment by the successor trustee. Upon receiving such notice of resignation, Inspiration Resources and HBMS shall promptly appoint a successor trustee by written instrument, in duplicate, one copy of which shall be delivered to the resigning trustee and one copy to the successor trustee.

Section 11.02 Removal of Trustee

The Trustee, or any trustee hereafter appointed, may be removed at any time by written instrument, executed by Inspiration Resources and HBMS, in duplicate, one copy of which shall be delivered to the Trustee so removed and one copy to the successor trustee, appointed by Inspiration Resources and HBMS.

Section 11.03 Successor Trustee

Any successor trustee appointed as provided hereunder shall execute, acknowledge and deliver to Inspiration Resources and HBMS and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee hereunder; provided, however, that on the written request of Inspiration Resources or HBMS or of the successor trustee, the Trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of this Agreement, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the Trustee so ceasing to act. Upon the request of any such successor trustee, Inspiration Resources, HBMS and such predecessor Trustee shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers.

Section 11.04 Notice of Successor Trustee

Upon acceptance of appointment by a successor trustee as provided herein, Inspiration Resources and HBMS shall cause to be mailed notice of the succession of such trustee hereunder to the holders of HBMS Special Shares. If Inspiration Resources or HBMS shall fail to cause such notice to be mailed within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of Inspiration Resources and HBMS.

Section 11.05 Delivery of Books and Records to Successor Trustee

Any trustee resigning or removed hereunder shall, on or prior to the date of its resignation or removal, deliver to the successor trustee all its books and records of account required to be maintained by it pursuant to Section 7.04 hereof.

ARTICLE TWELVE

DISTRIBUTION ON TERMINATION OF TRUST

Section 12.01 Distribution

Upon the termination of the Trust as provided in Section 13.01 of this Agreement, the Trustee shall make a distribution of the Inspiration Resources Trust Shares in the Trust Estate in the manner hereinafter provided. The Trustee shall promptly send written notice of termination of the Trust and the manner of distribution of the Inspiration Resources Trust Shares from the Trust Estate to the then holders of HBMS Special Shares and shall cause the same to be published once a week for two successive weeks in a recognized newspaper of national distribution in each of Canada and the United States.

Section 12.02 Distribution of Certificates Representing Inspiration Resources Trust Shares

- (a) As soon as practicable after the termination of the Trust, the Trustee shall distribute to each holder of HBMS Special Shares recorded on the books of HBMS on the date the Trust is terminated a certificate representing the number of Inspiration Resources Trust Shares (rounded to the next lowest whole number) which is the product obtained by multiplying the number of HBMS Special Shares held by such holder on such date by the Share Exchange Rate in effect on such date. Such Inspiration Resources Trust Shares shall be transferred to, and registered in the name of, the respective holders of record of the HBMS Special Shares as their names shall appear on the books of HBMS. At the time of any such distribution, such provisions as the Trustee may deem appropriate and consistent with the interests of the holders of the HBMS Special Shares may be imposed to give effect to the restrictions on transferability of the Inspiration Resources Trust Shares except upon transfer of the HBMS Special Shares to which such Trust Shares appertain. Upon distribution of the Inspiration Resources Trust Shares, voting and other rights in such shares shall be governed by the terms and conditions of such shares as set forth in the charter of Inspiration Resources and pursuant to Maryland law.
- (b) The remaining Inspiration Resources Trust Shares (other than Inspiration Resources Trust Shares owned by Inspiration Resources pursuant to Section 4.04 hereof) in excess of the number necessary to effect the distribution as aforesaid shall be sold forthwith by the Trustee to Inspiration Resources for cancellation for the price specified in Section 3.11 hereof and Inspiration Resources shall purchase such shares for cancellation and the proceeds thereof shall be applied by the Trustee to the payment of its compensation and reimbursement of its expenses hereunder, and any surplus then remaining shall be paid by the Trustee to Inspiration Resources.

ARTICLE THIRTEEN

TERMINATION

Section 13.01 Termination of Trust

The Trust created by this Agreement shall continue until the earlier of (i) the date on which no HBMS Special Shares are deemed to be outstanding (other than such shares held by Inspiration Resources or its affiliates) or (ii) the date which is twenty-one (21) years after the death of the last survivor of the descendants of His Late Majesty King George VI of the United Kingdom of Great Britain and Northern Ireland living on the date of the creation of the Trust.

Section 13.02 Termination of Agreement

This Agreement, including the rights granted hereunder to the holders, from time to time, of HBMS Special Shares to exchange such shares for Inspiration Resources Common Shares, the covenants of Inspiration Resources contained in Sections 3.11(b) and 3.12 of this Agreement, and the undertaking and guarantee of Inspiration Resources contained in Article Six of this Agreement, shall survive any termination of the Trust created by this Agreement and shall continue until (i) Inspiration Resources elects in writing to terminate this Agreement and gives notice thereof to the Trustee and HBMS and (ii) no HBMS Special Shares, no security of HBMS convertible into HBMS Special Shares and no option to acquire HBMS Special Shares is deemed to be outstanding (other than such Shares, securities or options held by Inspiration Resources or an Affiliate of Inspiration Resources); provided, however, that the provisions of Articles Nine, Ten and Twelve of this Agreement shall survive any such termination of this Agreement.

ARTICLE FOURTEEN

GENERAL

Section 14.01 Effective Date of Agreement

This Agreement shall become effective and the trust term shall commence on the Effective Date.

Section 14.02 Headings

The article and section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The terms “this Agreement,” “hereof,” “herein” and “hereunder” and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

Section 14.03 Number, etc.

Words importing the singular number only shall include the plural and vice versa as the context may require; words importing the use of any gender shall include all genders; and words importing persons shall include firms and corporations and vice versa.

Section 14.04 Validity of Provisions

If any provision of this Agreement is held to be invalid or unenforceable by any judgment or order of a court or tribunal of competent jurisdiction, the remainder of this Agreement shall not be affected by such judgment, and this Agreement shall be carried out as nearly as possible in accordance with its original terms and conditions.

Section 14.05 Amendment, Modification, etc.

- (a) The terms, conditions, and provisions of this Agreement, including the rights granted hereunder to the holders, from time to time, of HBMS Special Shares to exchange such shares for Inspiration Resources Common Shares, may be amended or modified at any time by the parties hereto subject to the prior approval of such amendment or modification by special resolution of the holders of the HBMS Special Shares.
- (b) Notwithstanding the foregoing provisions, the parties hereto may, at any time and from time to time, without approval by the holders of the HBMS Special Shares, amend or modify this Agreement to cure any ambiguity or to correct or supplement any provision contained herein or in any amendment hereto which may be defective or inconsistent with any other provision contained herein or therein, or to make such other provisions in regard to matters or questions arising under this Agreement, as shall not in the judgment of the Trustee adversely affect the interests of the holders of the HBMS Special Shares.
- (c) No amendment to or modification or waiver of any of the provisions of this Agreement shall be effective unless made in writing and signed by all the parties hereto.

Section 14.06 Special Resolution

HBMS, at the request of Inspiration Resources, shall call a meeting for the purpose of considering any proposed special resolution of the holders of the HBMS Special Shares. Any such meeting shall be called and held in accordance with the by-laws of HBMS and all applicable laws.

Section 14.07 Parties

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and to the benefit of the holders of the HBMS Special Shares. Except as specifically set forth in this Agreement, nothing in this Agreement is intended to confer upon any other person any rights or remedies under or by reason of this Agreement.

Section 14.08 Notices

All notices, requests, demands or other communications to or among the parties hereunder shall be given or made in writing, and shall be delivered personally or sent by certified or registered first class mail, postage prepaid, to the other party or parties to whom they are directed at the address set forth below:

To Inspiration Resources:

Inspiration Resources Corporation
645 Fifth Avenue
Suite 700
New York, New York 10022

Attention:

President

To HBMS:

Hudson Bay Mining and Smelting Co., Limited
28th Floor
Toronto-Dominion Bank Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1B8

Attention:

President

To the Trustee:

Montreal Trust Company
15 King Street West
Toronto, Ontario
M5H 1B4

Attention:

Manager, Stock and Bond Transfer Department

or to such other person or at such other address as any party may designate in writing to the others, provided that where delivery to the Trustee is required, no receipt will be deemed to have occurred until actual receipt thereof.

Notices shall be deemed to have been given and received upon the earlier of actual delivery thereof or three (3) calendar days after the date of postmark. In the case of an exchange pursuant to Section 4.10 of this Agreement or redemption pursuant to Section 4.11 of this Agreement, HBMS shall publish notice of such event not less than 30 Business Days prior to such event for a period of not less than three Business Days in a newspaper of general circulation in Toronto, Canada.

Section 14.09 Entire Agreement

This Agreement, together with the agreements and other documents herein and therein referred to, constitute the entire agreement between the parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of or between the parties with respect to the subject matter hereof.

Section 14.10 Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

Section 14.11 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland.

4. AND IT IS ORDERED that the Arrangement shall be deemed to be approved by the shareholders of HBMS if the Special Resolution, substantially in the form found in Appendix 2 to Exhibit “D” to the Affidavit of C. Keith Taylor is passed, with or without amendment, at the Meeting, by the affirmative vote of at least 66²/₃% of the votes cast thereon, and in addition of at least 66²/₃% of the votes cast thereon by shareholders other than Minorco Canada Limited.

5. AND IT IS ORDERED that the shareholders of HBMS be and they are hereby permitted to dissent from the Special Resolution approving, with or without amendment, the Arrangement under the provisions of section 184 of the Canada Business Corporations Act.

6. AND IT IS FURTHER ORDERED that, upon approval by the shareholders of HBMS of the Arrangement, with or without amendment, in the manner provided for in paragraph 4 hereof, HBMS may move in this Court for approval by the Court of the Arrangement and compliance by HBMS with the provisions of paragraphs 2 and 3 hereof shall constitute good and sufficient service of such motion for approval upon each and every shareholder of HBMS and upon the Director under the Canada Business Corporations Act.

APPENDIX 5

NOTICE OF CHANGE OF AUDITORS

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Quebec Securities Commission
New Brunswick Board of Commissioners of Public Utilities
Department of the Attorney-General, Nova Scotia
Department of the Attorney-General, Prince Edward Island
Department of Justice, Newfoundland

IN THE MATTER OF National Policy Number 31; AND IN THE MATTER OF a proposed change of auditors.

Hudson Bay Mining and Smelting Co., Limited ("HBMS") hereby gives notice of the proposed change of auditors, pursuant to National Policy Number 31 as follows:

1. Deloitte Haskins + Sells, the auditors of HBMS, last appointed at the annual meeting of shareholders held on the 3rd day of May, 1982, was advised by the management of HBMS that it proposes to recommend to the shareholders that Price Waterhouse be appointed auditors of HBMS for the year 1983.
2. At the next annual meeting of the shareholders of HBMS to be held in 1983, it shall be proposed that this change of auditors occur.
3. There have been no reportable disagreements between Deloitte Haskins + Sells and HBMS that:
 - (i) occurred in connection with the audits of the two most recent fiscal years and any subsequent period preceding the date of this notice;
 - (ii) occurred at the decision-making level, i.e., represented disagreements between personnel of HBMS responsible for presentation of its financial statements and personnel of Deloitte Haskins + Sells responsible for authorizing issuance of reports and comments with respect to HBMS;
 - (iii) related to any matter of audit scope or procedure, or any matter of accounting principles or practices or financial statements disclosure; or
 - (iv) caused or would have caused Deloitte Haskins + Sells to refer the matter in their report on the audited financial statements.
4. There has been no adverse or qualified opinion or denial of opinion contained in the Deloitte Haskins + Sells reports on the annual financial statements for the two fiscal years preceding the date of this notice.
5. The proposal to change the auditors was approved by HBMS's Audit Committee.
6. It has not been the practice of HBMS to have Deloitte Haskins + Sells review or comment on the interim financial information.
7. Deloitte Haskins + Sells' letter dated the 28th day of May, 1982, stating their agreement with the information contained in paragraph 3 and 4 of this notice is attached hereto as Exhibit A.

Dated at Toronto this 28th day of May, 1982.

HUDSON BAY MINING AND SMELTING CO.,
LIMITED

"John B. Howkins"

C.S.

"Shirley Kozel"

Exhibit A to Notice of Change of Auditors

May 28, 1982

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Quebec Securities Commission
New Brunswick Board of Commissioners of Public Utilities
Department of the Attorney General, Nova Scotia
Department of the Attorney General, Prince Edward Island
Department of Justice, Newfoundland

Dear Sirs:

HUDSON BAY MINING AND SMELTING CO., LIMITED

We are in receipt of a notice dated May 28, 1982 pursuant to National Policy Number 31 from Hudson Bay Mining and Smelting Co., Limited advising us that management proposes to recommend to the shareholders of Hudson Bay Mining and Smelting Co., Limited that it change its auditors to Price Waterhouse at its next annual meeting of shareholders. We have read the notice and advise you that we agree with the information contained in paragraphs 3 and 4 of this notice.

Yours very truly,

Deloitte Haskins + Sells (signed)

